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GENERAL

Analysis of Foreign Economic Interests

93CM0447A Beijing XIANDAI GUOJI GUANXI [CONTEMPORARY INTERNATIONAL RELATIONS] in Chinese No 44, 20 Jun 93 pp 1-7

[Article by Yan Xuetong: "Preliminary Analysis of China's Economic Interests Involving Foreign Countries"]

[Excerpt] [passage omitted] **China's Economic Interests in Relation to the Different Regions of the World**

1. China's economic interests involving foreign countries mainly involve Hong Kong and the developed countries; this situation will remain basically unchanged for the next 10 years.

The main markets for China's goods for export and the main sources of technologies introduced into China are the developed countries. Currently, 75 percent of China's exports are destined for Hong Kong and the developed countries; this proportion will remain unchanged in the short run. China's technology imports mainly come from the Group of Seven Western countries and Russia. Although China is a developing country, in some areas China enjoys scientific and technological levels that are much higher than those of ordinary developing countries and that are not inferior to those of the newly industrializing countries; in certain areas China can even compete with developed countries. Because of this unique feature, only the developed countries have the technologies that China needs. With the rapid growth of the Chinese economy, China will have ever greater demand for such high-grade, precision, and advanced industrial products from Western countries as aircraft, machinery, vehicles, and industrial materials. The share of imported industrial manufactured products in China's overall imports rose from 65.2 percent in 1980 to 83 percent in 1991.

China's economic interests involving the developed countries mainly involve the United States and Japan. The United States and Japan are the greatest economic powers in the world, and are, besides Hong Kong, also the main markets for China's products. In 1991, China's exports to Japan and the United States accounted for 14.2 percent and 8.6 percent (over 20 percent according to U.S. statistics) respectively of the total value of exports. The United States has approximately 2,300 investment projects in China, with the investments totalling over $5 billion. The GNP of the United States and Japan together account for 40 percent of the world total. Thus, to promote her economic interests overseas, China naturally has to focus on the markets and capital of the United States and Japan. In addition, the United States and Japan lead the world in science and technology. If China can develop good cooperative relations with them, the United States and Japan can become the countries from which China will introduce advanced foreign technologies in most cases.

European countries are now the main source of technologies that China introduces. Relations between China and the United States have yet to be normalized, after having deteriorated in 1989. In the meantime, Japan is trying to maintain a certain scientific and technological gap between itself and China, and therefore the Japanese are keeping a strict control over technology exports to China. Presently, the complete sets of equipment and technologies imported by China have mainly come from European countries. In 1991, 57 percent of the complete sets of equipments and technologies imported by China came from West European countries. There were 11 countries and areas from each of which over $100 million's worth of imports came; they were ranked as follows: Germany, France, Japan, the United States, Italy, Hong Kong, Switzerland, Austria, Britain, Canada, and Finland, with seven being European countries. Of the six countries and areas from which China's technology imports mainly came from in that same year, five were in Europe; they were the former Soviet Union, Italy, Britain, Germany, and Spain. China and the European countries are similar to each other in terms of comprehensive strength, and there are no actual conflicts between them in terms of their geopolitical interests; therefore, it is easy for them to achieve peaceful coexistence. In addition, there exists economic complementarity between them. As a result, it is easier for China to import technologies from West European countries than from Japan or the United States. Because Russia and the CIS countries have an urgent need for foreign exchange, they may also become a region from which much of China's technology imports can come.

2. China's economic interests are expanding faster in Asia than in other region in the world, and the Asian region will be the base for China's effort to expand external economic cooperation in the early 21st century.

Asia is experiencing robust economic growth, and China's exports to this region are growing rapidly. In contrast to the situation in the West where the economy has been in the protracted doldrums, some Asian countries and areas have enjoyed high-rate economic growth. The 1991 and 1992 economic growth rates were 8.8 percent and 8.7 percent respectively for Malaysia; 8.4 percent and 7.3 percent respectively for the ROK; 7.5 percent and 7.4 percent respectively for Thailand; 7.3 percent and 6.4 percent respectively for Taiwan; 6.7 percent and 5 percent respectively for Singapore; and 6.4 percent and 6.5 percent respectively for Indonesia. As those countries and areas have enjoyed rapid economic growth, the Asian region's dependence on exports has markedly increased; the rate of dependence rose from 34 percent in 1985 to 39 percent in 1990. In terms of the situations regarding individual countries and areas of the region, the rate was: 30 percent for Japan; 34 percent for the newly industrializing areas; 53 percent for the ASEAN countries; and 60 percent for China (in this respect, the rate was 61 percent for the EC). In 1991, China's exports to Asia grew faster than to any other region, with an increase of $8.73 billion over 1990.

Hong Kong and Macao have invested the most in the Chinese mainland; the investment from Taiwan is the next largest. The other countries among the 10 countries which have invested the most are ranked as follows: the United States, Japan, the ROK, Singapore, Canada, Thailand, Australia, and Malaysia.

Asia is also the main source of tourists visiting China and the main market for China's technology exports. In 1992, 18.481 million Asian tourists visited China, accounting for 48.4 percent of the total number of tourists (38.1161 million) who visited China. In this respect, more of those tourists came from Hong Kong or Taiwan than from any other country or area. Six countries and areas had their numbers of tourists visiting China increased by 50 percent in 1991; five of those countries were in Asia. Of the 15 countries which had the largest numbers of tourists visiting China, nine were in Asia (Hong Kong and Taiwan were not included here). Of the seven major receiving countries and areas of China's technology exports in 1991, six were in Asia, with Hong Kong being the area which received the largest number of technology exports projects (49 projects); the country which accounted for the largest amount of exports in terms of monetary value was Pakistan ($182 million).

After the Cold War ended, European integration and the North American Free Trade Area have been developing, while regional trade protectionism has been on the rise. All this will to some extent hamper the development of economic cooperation between China and European and American countries. Under such circumstances, China will naturally give even greater emphasis to economic cooperation with neighboring Asian countries. Asian countries are faced with the pressure generated by the regional protectionism in Europe and the United States, and will therefore naturally try to enhance intraregional economic cooperation. Thus China has become their important cooperation partner.

3. China's economic cooperation with the developing countries outside Asia is still of secondary importance, and needs to be further improved and strengthened.

Since the early 1980's, most of the developing countries outside Asia have been experiencing economic stagnation or deterioration. Many developing countries have accumulated huge amounts of debts, and lack purchasing power. The proportion of China's trade with developing countries has been declining. Developing countries' trade with China accounted for 16.5 percent of the total value of China's foreign trade in 1987; that proportion fell to 13.44 percent in 1991. At the same time, the proportion of the total value of China's exports accounted for by exports to developing countries fell from 19.6 percent to 14.5 percent. In 1991, China's trade with Africa totalled $1.43 billion; China's trade with Latin America totalled $2.36 billion; and China's trade with Oceania (excluding Australia) totalled $270 million. The total value of trade with the three regions was smaller than the value of China's trade with Germany alone. In 1991, China's exports to those three regions totalled $1 billion, $890 million, and $92 million respectively; the combined value of exports to the three regions equalled only 80 percent of the value of China's exports to Germany. China's main imports consist of complete sets of equipment, raw materials for the chemical industry, chemical fertilizers, steel products, and grain. Most of those products are things that developing countries are unable to provide. With scientific and technological progress and development in China, China will not rapidly increase her demand for the primary commodities from developing countries. Besides trade, those countries will not be able to do much in terms of such things as investment, tourism, and technology introduction in China, because of their economic difficulties. In the near term, China will face many difficulties in developing market in developing countries.

The cooperation between countries of the Middle East and China in the areas of energy and labor service projects has some development potential. Currently, energy is already in short supply in China. With the expansion of the economy, China's demand for Middle Eastern oil will greatly increase. Because of the petrodollars, countries of the Middle East have greater financial capacity for capital construction than African and Latin American countries do. The price of Chinese labor is low, and China's engineering technological capabilites can basically meet the requirements raised by developing countries. Consequently, China is very competitive on the capital construction markets in the countries of the Middle East. In 1979-1991, in each of such countries as Iraq, Yemen, Kuwait, and Pakistan, China's volume of business in this field totalled over $400 million.

As shown in the analysis above, with the continuation and expansion of reform and opening up to the outside world, China's economic interests involving foreign countries will further expand, and will become an important component of China's national interests. The continuous development of China's economic interests involving foreign countries will accelerate the integration of the Chinese economy into the world economic system, and will affect China's external economic policy in many ways. China will actively seek to restore her status as a signatory state of the GATT, adjust and reform such economic systems, laws, and regulations as those governing finance, accounting, and auditing on the basis of referring to the customary rules and practices used in the world economy, so as to make the economic system more market-oriented and more open.

NATIONAL AFFAIRS, POLICY

Real Estate Market Blamed for Economic Overheating

93CE0767A Hong Kong CHIU-SHIH NIEN-TAI [THE NINETIES] in Chinese No 7, Jul 93 pp 44-45

[Article by Sha Ming: "Real Estate Craze, Cause of the Economic Crisis"]

[Text] The sudden real estate craze on the mainland last year absorbed large amounts of funds, and stimulated industrial production and import, resulting in the overall overheating of the economy. Real estate development has gone beyond what the purchasing power of mainland people can support, and has been based on the overestimation of Taiwan and Hong Kong people's inclination to buy property on the mainland. The failure to sell a large amount of buildings triggered an economic crisis.

The main cause of the economic crisis on the Chinese mainland triggered by economic overheating was the sudden real estate craze and stock craze last year. In this regard, the blind development of real estate had the biggest impact.

Everyone tried to join the action, leading to duplicate investments

The real estate craze developed after Deng Xiaoping made his southern inspection remarks last year. At that time, first, such localities as Dongguan, Zhongshan, Danshui, and Huiyang outside the Shenzhen Special Economic Zone in Guangdong Province began to build luxury apartment buildings, and tried to sell the buildings by advertising them in Hong Kong publications. Later, regions in the hinterland also followed suit. Various regions—including Xiamen, Tianjin, Shanghai, Beijing, Qingdao, and even some remote regions—all joined the action and began to develop real estate. Most of the buildings were marketed in Hong Kong. According to one source, based on price calculations, the developers believed that as land cost was low and as the main costs consisted of those for construction materials and the expenditures for supporting projects such as those relating to electricity supply, water supply, roads, preparing the ground (supplying three links and one level), the floor space could be sold at the price of 4,000-5,000 yuan a square meter (one square meter equals 10 square feet, and 3.6 square meters equal approximately one ping), a price that would be considered cheap in Taiwan and Hong Kong. Even with the floor space sold at such a low price, such development could still be very profitable for real estate developers. But were such calculations based on market investigations? Obviously not.

Amidst the activities of economic reform encompassing opening to the outside world, reinvigorating the economy, and increasing local autonomy, everyone rushed into real estate development, resulting in duplicate investments. Many factories and enterprises used the state-allocated funds—including key project funds—for developing real estate. In addition, they also raised funds through such means as issuing stocks, thereby absorbing large amounts of funds in society and affecting the situation regarding people's savings deposits at banks.

Stimulating the economy, leads to overall overheating

First, the real estate craze stimulated industrial production, mainly the production of steel products, aluminum products, cement, plate glass and other construction materials. As a result, the output of each of those category of construction materials increased by 20-30 percent last year, while the price rose by one to four times. In addition, import of these construction materials was also stimulated. For, later the panic buying of construction materials produced by the mainland itself made the prices higher than the prices of imported construction materials, resulting in large amounts of imports.

The real estate craze had an even greater stimulating effect on fixed asset investment. On the one hand, fixed asset investment was required by industrial growth; on the other hand, fixed asset investment was also needed for "supplying three links and one level." According to one source, statistical analysis showed that local governments would have to appropriate funds totalling 2,000 billion yuan for completing the supporting projects relating to "supplying three links and one level." In other words, the total income of the country last year would not be enough for such investment.

The real estate craze also led to capital shortages, to the decline in people's savings, and to the need for the state to greatly increase money supply. As a result, there has occurred such a situation where people are scrambling for funds everywhere, where people are raising funds at high interest rates everywhere, and where banks are faced with a deposit crisis.

Prices are rising, farmland is set aside

High interest rates, large increases in money supply, and the rapid growth in imports have naturally led to rising prices. The inflation situation is already rather serious. If the situation is allowed to develop further, the inflation rate by the end of the year may be several times the rate for any of the previous several years. Also, the renminbi [rmb] exchange rates have declined greatly. At present, there is no way of accurately predicting how much further the rates will decline. But it is generally believed that by the end of the year a rate of one dollar to 15 yuan rmb is possible (the current official rate is one dollar to 5.74 yuan rmb).

The real estate craze on the mainland has also affected agricultural production. Last year alone, over 2,600 mu of land was set aside to be used for building purposes, but only less than 1 percent of that land was actually used. As a large amount of land was set aside and unused, agricultural production was naturally affected.

Of special importance is the fact that most of the land set aside is situated in the southeastern coastal regions where agricultural production is rather developed.

Lack of purchasing power, buildings remain unoccupied

Why has the real estate craze led to an economic crisis? Under similar circumstances, real estate developers in Hong Kong and Taiwan can gain rather high profits. Where does the problem with the mainland situation lie?

The key problem is that real estate development on the mainland has been carried out in a blind manner. A substantial amount of the real estate consists of luxury country houses and luxury apartments. Basically, in view of the real estate prices at the present time, mainland people do not really have the necessary purchasing power. On the other hand, the inclination and capacity to buy mainland real estate on the part of Hong Kong and Taiwan people and overseas Chinese were overestimated. Consequently, many buildings remain unsold, resulting in the accumulation of unsold buildings.

Take the example of the luxury country houses in Shenzhen. The most expensive ones sell at the price of 24,000 yuan a square meter (i.e., 2,400 yuan a square foot), which is very close to real estate prices in Hong Kong. Very few people have in fact shown any interest in buying those houses. Even the price for the housing for ordinary mainland employees is also as high as 5,000 yuan a square meter; thus a unit with 60 square meters of floor space would cost 300,000 yuan, and is much too expensive for a mainland employee to be able to afford in view of the relevant income level.

Therefore, in very few cases has 50 percent of such housing—whether luxury country houses or employee housing—been sold; usually only 10-20 percent has been sold.

Large amounts of capital, industrial products, imports—construction materials—and fixed asset investment have been used for the purpose of developing real estate, but the real estate remains unsold. The real estate craze got the economy moving, but there is no market. Consequently, people cannot get back the money invested, and there are no returns on the development. The stimulation resulting from the real estate craze has also affected the national economy as a whole, thereby leading to an economic crisis.

Two ways of resolving the problems

People are watching in a focused manner what methods the PRC will use to resolve the economic difficulties caused by the real estate craze.

It seems that presently the PRC will adopt the method of issuing administrative orders to "slam the brakes" on the development of real estate nationwide, and use the methods of reducing credit and raising interest rates (now raising interest rates may be already unable to produce effect) to stop the construction of real estate nationwide. In this way, the funds invested in the real estate and in the supporting projects relating to "supplying three links and one level" would be wasted. Nevertheless, first rushing into action and then slamming the brake—resulting in the abandonment of all the projects—seem to be the law of the PRC's economic development, a law which has manifested itself again and again over the last few decades. The lesson in this regard is never learned.

Some people argue that the state should adopt a policy of protecting real estate so that the construction under way will not stop. The way to accomplish that is: to develop lower-grade employee housing, the price of which should be less than 2,000 yuan a square meter. In this way, a unit would cost approximately 200,000 yuan. Meanwhile, the state should provide employees with no-interest or low-interest loans to cover 75 percent of the cost. Thus, an employee would be able to purchase a unit, by spending only 50,000 yuan. In addition, encourage rich households from rural areas to buy housing in cities, and give them residence permits. In this way, there can be stimulating effects on the real estate market so that the market can have a benign cycle.

The key issue is that in developing any sector it is always necessary to proceed from the situation regarding one's own conditions. Rushing into action and blind investment can only result in a vicious cycle in which the economy goes from overheating to contraction.

Officials Discuss Converting Large Enterprises to Stock Companies

93CE0786A Beijing GUANLI SHIJIE (MANAGEMENT WORLD) in Chinese No 3, 24 May 93 pp 62-66

[Report on opinions expressed at the International Seminar on Reorganization of China's Large Enterprises as Stock Companies and Development of the Stock Market: "Studying the Reorganization of China's Large Enterprises as Stock Companies"]

[Text] [Editor's note] On 13-15 April 1993, an International Seminar on Reorganizing China's Large Enterprises as Stock Companies and on the Development of the Stock Market was held in Beijing. The seminar was sponsored by six organizations: the Department of Production Structure of the State Commission for Restructuring the Economy, the Enterprise Department of the State Administration for the Management of National Assets, the China Securities Trade Association, the China Enterprise Assessment Association, and the China Cheng Xin Securities Appraisal Company, Ltd. Leading cadres from the state's relevant departments, renowned Chinese economists, legal and accounting specialists, enterprise representatives, and representatives from over 30 countries and territories, such as the United States, Great Britain, France, Japan, Switzerland, the Netherlands, and Hong Kong, engaged at the seminar in thorough studies, discussions, and a comprehensive

exchange of opinions, specifically on the issues of policy governing the conversion of China's large enterprises into stock companies, entry of China's large enterprises into international stock markets, legal and accounting changes required by the conversion of China's large enterprises into stock companies and by offering their shares abroad. To promote study and sound development of the transformation and reorganization of large enterprises into stock companies, this periodical will present for the benefit of our readers the personal viewpoints and opinions on the above-mentioned issues expressed by some authoritative personalities of the government, as well as by economists, legal experts, and foreign representatives. [end editor's note]

Authoritative Personalities of the Government Speak on Reorganization of Large Enterprises as Stock Companies

Yuan Mu [5913 2606]], director, Research Office of the State Council:

The 14th CPC National Congress has proclaimed to the nation and to the whole world: The purpose of China's economic structural reform is to establish a new socialist market economy in the interest of further liberation and development of the productive forces of Chinese society. For every member of the CPC and for the 1.1 billion Chinese, development of the socialist market economy has become the direction that has to be pursued as with one heart, with all mental and physical strength, without sparing any effort, and with unswerving perseverance. There is no other possibility for us but to advance in this direction, and there can be no turning back, as turning back would lead into a dead-end street.

The market economy that we intend to develop, in the general sense of the term, must, of course, conform to the internationally prevailing standards of market economies. We must, therefore, first of all, draw lessons from the experiences of the developed capitalist countries and of some of the newly arisen developing countries, i.e. from the practical experiences of these countries in developing market economies and their various methods—successful methods—of achieving standardization through legislation and in other ways. If we do not have this insight, it will not be possible for China to find the road toward socialist market economy, in fact we may even quite possibly be led completely astray. Declining to learn from the abundantly accumulated experiences of mankind would be extremely foolish, and would also make it extremely difficult to achieve success in our intended transformation.

In the development of China's socialist market economy, transformation and reorganization of state-owned enterprises is the crucially important key issue. Development of our socialist market economy demands, of necessity, firm adherence to the principle of retaining a publicly owned economy as dominant component of the economy. This does not mean to delimit its position subjectively, but rather to objectively assert that it can indeed occupy dominant position and can bring its superiority into play. However, the present state of affairs in this respect is not at all satisfactory. Presently, the economic conditions, business mechanisms, operational conditions, and economic efficiency of China's state-owned enterprises are all highly deficient. To change this situation we must adopt new measures; i.e., we must learn from the other experiences in the international arena. Transformation to a shareholding system may perhaps be feasible, but if we pursue this road, it will by no means be smooth going. It will still require a huge effort and arduous exploratory work.

China's socialist market economy is a market economy that will be subject to macroeconomic regulation and control by the state. How will the state effect regulation and control? In the past, we have had the experience of regulation and control under the conditions of planned economy. This experience was to a certain extent successful under prevailing historical conditions. It stimulated China's economic development, but with the ever expanding scale of construction and economy, it proved increasingly inadequate and showed up more and more deficiencies, even to the extent of seriously restricting China's economic development. We want to preserve the advantages of the former planned economy, but also to resolutely eliminate its deficiencies and gradually establish a system of regulation and control which will meet the demands of the developing socialist market economy, which will be highly effective, and also scientific, exercising primarily indirect regulation and control. Establishing this system of regulation and control is not at all an easy matter. Many countries of the world have had successful experiences in this respect, but, of course, there have also been some twists and turns along the way. It is well worth our while to learn from these experiences.

In a certain sense, modern market economy, comprising the socialist as well as the capitalist market economy, must be a standardized, institutionalized, and law-based market economy. This kind of a market economy could perhaps also be called a law-affirmed economy. Any market economy without relevant institutions, without support in the legal system, and without orderly operations will become a catastrophe for the nation and for its economy. We must under no conditions go that road.

In the transformation of China's large- and medium-sized enterprises into stock companies, in the multifarious economic operations and economic activities during the transition, in the way we shall use our economic levers, etc., in the whole series of these issues, it is therefore necessary that we strengthen legislation, strengthen enforcement of law, and strengthen a law-based governance. Otherwise, economic order will be constantly disrupted in a state of absolute lawlessness and chaos. Quite frankly, situations like that have in fact already appeared in China's present transition to market economy. We must change the disregard for existing laws and lax law enforcement which presently prevails, by

further strengthening legislation, especially law enforcement, to have China's market economy evolve toward a state of a fairly well-developed standardization and law-based governance.

A few further remarks on the transformation to the shareholding system. In China's transformation to the shareholding system, especially in the transformation of state-owned large- and medium-sized enterprises, I believe our attention must be directed to change the operational mechanism of enterprises. Instituting the shareholding system can of course be a method of raising capital for social construction. However, if we mainly direct our attention to pursuing the enterprise shareholding system to expanding stock issues, creating excessive development, or a "bubble" economy in China, when China's industrial development has not yet been accomplished, we would stride a road beset with many dangers. As we look at the international scene we see that some fairly well developed countries are experiencing the dangers of "bubble" economies. If we do not pay attention to this point at this time of our initial transition to market economy, and at a time when our industrial buildup is not yet at a satisfactory state, we shall quite possibly suffer for it. It does not mean at all that we should not develop the shareholding system and not develop security markets. Instead, it means that with regard to the relationship between industrial buildup and a "bubble" economy under the present conditions in China, the former is the main emphasis, but the latter must also be developed; however, it must be development that will benefit the former. Only by doing it in this order can we advance on the correct road in order to ensure sound economic development.

Hong Hu [3163 5706], vice minister, State Commission for Restructuring the Economy

Having Chinese enterprises issue stock and having a securities market in China is a result of reform. Certain enterprises are experimenting in different localities. After gaining some experience, these reforms will be gradually adopted, and reform remains under continued guidance.

The principles governing the reorganization of these enterprises: maintaining the publicly owned economy as a dominant component, conscientious protection of publicly owned assets from erosion, implementation of the state's industrial policy, promoting readjustment of the organizational structure of enterprises; asserting equality of stockholders' rights, equal rights for equal number of shares, common sharing of profits, common sharing of risks. General demands of experimenting with the shareholding system are: firmly insisting on locally limited experiments, striving for quality not quantity, allowing no disorderly activity. Guiding principles for pilot projects are: energetic pursuit of pilot projects, strictly conforming to standards, advancing at a steady pace, achieving sound development.

The amendment to the constitution, just passed at the First Session of the Eighth National People's Congress [NPC], clearly states: "The state will institute socialist market economy." The shareholding system complies with the developmental requirements of the market economy, and it reflects the organizational system of modern enterprises, as demanded by large-scale socialized production. It has grown in the wake of development of the commodity economy and to that extent, and it has grown following improvement standard of living.

Conspicuous progress was achieved last year in experiments with the shareholding system in China, and experiments in some enterprises have been very successful. One major task in the experimentation with the shareholding system is the need for additional economic legislation, to strictly standardize enterprise and market activities, so as to ensure the sound development of these experimentations with the shareholding system. Presently, intensive efforts are made to draft a corporate company law and a securities law. Regulations controling stock issues and trading, as well as a series of other supplementary rules and regulations, will be forthcoming. Regulations will also be promulgated to control and limit shares bought by staff and workers within their own directionally fund-raising companies.

When experimenting with the shareholding system, China must begin realitistically, but must also take full advantage of experiences made by various other countries and territories of the world. International practices and methods must be adopted to a much larger extent, in order to promote development of the shareholding system in the direction of greater standardization.

Xiang Huaicheng [7309 2037 6134], vice minister, Ministry of Finance

In preparing for the establishment of a model of the socialist economic system, we are now facing a series of problems. Among these, two are extremely important; they are also problems whose resolution is a matter of great urgency. One is how to conduct experiments with the shareholding system in an effectively guided and standardized way; especially how to promote the shareholding system among China's state-owned large- and medium-sized enterprises and to effect their flawless reorganization. The other problem, linked to the first one, is how to ensure the healthy development of China's just-initiated securities market. If both these problems can be resolved effectively, progress in the establishing the socialist market economy could be accomplished more safely and quickly.

Resolution of these two problems presupposes a series of socioeconomic conditions. It requires a set of sound market regulations, it requires an excellent economic environment and order, it requires that a price reform provide a most rational pricing system, and it requires an entire set of necessary, flexible measures of macroeconomic regulation and control of considerable force. At the same time, it would require setting up and perfecting

a series of intermediary organizations which would service the experimentation with the enterprise shareholding system and the establishment of a securities market. It would require the training of a group of well-qualified lawyers familiar with economic activities, and also of a group of registered accountants. It requires instituting accounting guidelines and finance regulations corresponding to current international accounting practices, etc.

On the question of experimenting with the shareholding system, I believe standardization is more important than widest expansion of its adoption. In China, once the leadership calls for it, it would be quite possible to rapidly set up several thousand pioneering projects. However, standardization differs from widely expanded adoption in that the problem of standardization cannot be resolved by an appeal from the leadership. Standardization, especially well-guided standardization, is for this reason presently more important for successful progress in China's experimentation with the shareholding system.

We must presently intensify our study and discussion of the reform toward the shareholding system and of the securities market issue. This will prevent, as much as possible, going astray in the developmental process of converting to the shareholding system and developing securities markets. It will also allow us to discover as early as possible new situations and new problems, and enable us to establish as early as possible the much needed systems of joint-stock enterprises and securities markets, fully conforming to China's national conditions.

Dong Furen [5516 6534 4356], vice chairman, Finance and Economic Committee of the NPC

China is now in the process of changing from a directive-style planning economy to a socialist market economy. Any market economy requires for its normal functioning a microeconomic foundation that is attuned to the operations of the market economy. The microeconomic foundation that a market economy requires must be enterprises with clear ownership relations and capable of managing their business affairs independently and of bearing responsibility for their own profits and losses. Only with this type of enterprises will it be possible, on the one hand, to have an economic profit-motivated mechanism, and, on the other hand, also a strong profit-restraining mechanism. This alone will enable the enterprise to become an entity of market activities, to duly react to market signals, and to vigorously participate in market competition. In creating the microeconomic sector of the market economy, state-owned enterprises, especially large state enterprises, present the greatest difficulties. This is so because, although considerable progress has been achieved in the reform of the state-owned enterprises since the start of the reform, their ownership relations are still unclear, they are still not fully independent in their business operations, and they are even less capable of bearing responsibility for their own profits and losses. As long as the state-owned enterprises cannot be reformed to become entities of market activities, cannot be fully independent in their business operations, cannot bear responsibility for their own profits and losses, there is no way to provide China's market economy with a comprehensive microeconomic foundation. It will also make it very difficult to smoothly transform the directive-style planned economy into a market economy. This, in turn, will also make it very difficult to develop and perfect a market economy, and makes it even more difficult for it to operate normally.

There are many different ways to transform state-owned enterprises into entities of market activity, and one important way is to reorganize the state-owned enterprises into joint-stock enterprises. This kind of transformation is now being carried out, and initial results are excellent. However, many problems remain unresolved. For instance, who is to represent the state-owned shares, how can a new kind of "fusion of government administration and enterprise management" be prevented, etc. In the conversion of state-owned enterprises to joint-stock companies, the pertinent reorganization of large state-owned enterprises is of particular significance, as it also presents many particular problems and difficulties. For instance, large state-owned enterprises own substantial assets. When converting them into joint-stock companies and when breaking up their assets into shares, state-owned shares must not take up too large a proportion. This, then, would demand drawing in a huge amount of social capital, and how to raise that huge amount of capital without seriously disturbing the money market (e.g. seriously affecting bank deposits) is indeed a difficult question. Furthermore, assets of large state-owned enterprises are structurally very complex, and how to appraise these assets is yet another difficult question. If appraised too low, it would mean loss of state-owned assets, and if appraised too high, it will adversely affect the interests of the new shareholders and thus hamper the issue of shares. Moreover, these large state enterprises frequently support a very large array of welfare organizations, such as schools, hospitals, canteens, etc. How to handle the assets of such nonprofit organizations when transforming the enterprise into a joint-stock company, whether they should also be turned into shares, and if not, how to maintain and develop these organizations, these are also all very difficult problems. Large state enterprises usually have heavy welfare expenditures (such as expenditure for medical treatment) and to have to pay substantial amounts for old-age pensions. Since China has not yet reformed its social security system, this may prove an obstacle to the reorganization of state enterprises into joint-stock companies, as the general public will find the shares, it is supposed to subscribe, not very attractive. When being converted to joint-stock companies, large state enterprises will also have to resolve a series of policy problems; for instance, the tax policy, profit distribution policy, etc. All these problems must be subjected to corresponding readjustments. Using the tax policy as an

example, state enterprises now bear a very heavy tax burden, much heavier than that of enterprises operating under a different ownership system. On the other hand, the profits and taxes turned in by large state enterprises constitute a major source of the state's financial income. If there is no readjustment of the tax burden after their conversion to joint-stock companies, and if they must pay dividends to the state on state-owned shares, their financial burden will be much heavier than when operating under the contract system. This is one reason why some state enterprises are reluctant to reorganize as joint-stock companies.

China's securities market has just been initiated, and as it is still not well-developed and far from perfect, it presents many problems that have to be resolved. When reorganizing as joint-stock companies, the large state enterprises may encounter various difficulties due to the fact that China's securities market is not yet well-developed and not yet perfect. Conversely, if the large state enterprises, after their conversion into joint-stock companies, cannot operate according to the rules of joint-stock companies, they will, in turn, create difficulties for the development and perfection of China's securities market. For instance, we have not yet solved the problem of the entry into the market and circulation of state-owned shares in joint-stock companies. If state-owned shares are precluded from market activities, it will not be possible to reevaluate the stock of state-owned assets, i.e., state-owned shares cannot show—as would have been the case in circulation—whether they maintain or whether they have increased in their value. The securities market and the shareholding system would, in that case, also be unable to exercise their due functions of optimizing the allocation of resources. On the other hand, movements of state-owned shares will naturally play a particularly prominent part after conversion of large state enterprises into joint-stock companies. If their conversion to joint-stock companies takes place, the state-owned shares will be of an enormous amount, and if they are precluded from circulation, it would further weaken the functions of the securities market and of the entire shareholding system. However, at the same time, since huge amounts of assets are involved, entry into the market and circulation of these state-owned shares of large enterprises would create a great shock in the share market, under the present conditions when the amount of general share funds in China's market are so limited.

Luo Yuanming [5012 0337 2494], deputy director, State Assets Administration Bureau

The Eighth NPC explicitly stipulated, included as part of the constitution, that China's economy is to be a socialist market economy. As a consequence, important problems have arisen in the practical execution of the structural reform in national asset administration, problems that demand prompt solution, namely:

How to reform the traditional enterprise system in China's national economy according to the demands of the developing socialist market economy; how to truly transform the enterprises into economic entities with independence in their business operations and responsibility for their own profits and losses; how to transform the enterprises into market entities with competitive vitality; how to have them fully exercise their guiding function in the national economy.

In the following, I intend to discuss two views on the question of reorganizing China's state-owned enterprises into joint-stock companies.

1. The Purpose of Reorganizing State-Owned Enterprises Into Joint-Stock Companies

I believe there are at least three functional reasons for reorganizing state-owned enterprises to the shareholding system.

A) It will enable straightening out the ownership relations between the state and the state-owned enterprises, in accordance with the modern system of granting enterprises the status of legal persons, i.e., the corporation system. It will enable standardizing the market operations and actions of enterprises, allowing them independence in their business operations and to assume responsibility for their own profits and losses, within the scope of the property of the legal persons concerned.

B) It will be beneficial for a straightening out of ownership relations between the various member enterprises within state-owned enterprise groups, establishing firm property bonds between them. People have by now realized that effective participation in the international market competition requires setting up economically strong "national teams." These are enterprise groups whose core are China's large- and medium-sized state-owned enterprises. During the last few years, we have already set up, in a variety of forms, several such groups of considerable proportions, composed of large enterprises, and these have indeed initially displayed much competitive strength. However, there has still been very little standardization in the internal ownership organization of these enterprise groups. This has to a very large extent prevented the groups from bringing the advantages of acting as whole groups into full play. We intend through the shareholding system to gradually standardize the ownership relations within the groups, according to the organizational framework of parent and subsidiary companies, and to create favorable preconditions for the steady development of enterprise groups.

C) Looking at the overall development of the national economy, we see that we will be able, through the reform of the shareholding system, to achieve gradual improvement in the industrial disposition and the regional disposition in the national economy, promote a more rational and modern character of the economic structure, so as to have the state-owned economy play a more effective guiding role in the national economy.

2. Several Problems That Require Attention in the Conversion to the Shareholding System

Compared with the former "responsibility system" reform, the transformation to the shareholding system is penetrating much deeper and is also on a much broader scale, be it in content or in scope, while the contradictions it entails will also be more complex. We must draw utmost attention to this fact. As it was in the past also not a case of immediate effectiveness on entering into the contracts, it is with the shareholding system also not a case of immediate effectiveness as soon as shares are issued. If not handled properly, it could rather become a case of immediate chaos, as soon as the shares are issued. It is therefore crucial how the reorganization is carried out. It requires courage and resourcefulness to boldly blaze new trails, but it also requires unified standardization and advancing at a safe pace. When transforming the state-owned enterprises to the shareholding system, I therefore believe it necessary to give special attention to strict adherence to the following principles.

A) The rights and interests pertaining to state-owned property must be effectively protected against loss or harm. It must be strictly prohibited to misuse the reorganization toward the shareholding system for the purpose of converting state-owned property into property of a collective or of an individual.

B) Unified standards must be formulated as soon as possible for the reorganization of enterprises to the shareholding system. In the standardization, the principles of "equal shares, equal benefits" and of proper assessment of assets on conversion into shares must be firmly adhered to. State-owned shares must not be precluded from receiving dividends, and assets must not be converted into shares without a proper assessment of the value of such assets.

C) The conversion of state-owned enterprises to the shareholding system must be integrated with the developmental strategies of certain trades and regions. There must be unified arrangements, and action must proceed according to unified standards and in an orderly way. Under no circumstances must there be an outburst of confused activity with each going his own ways.

D) As a supplementary action, there has to be reform of government functions. The reform should create an external environment suitably supportive of business operations of enterprises organized according to the shareholding system.

PROVINCIAL

Ningxia Economic Development Statistics

OW2706062693 Yinchuan NINGXIA RIBAO in Chinese 26 Jul 93 p 1

[Report by General Department of Ningxia Regional Statistics Bureau: "Statistics Show Gradually Accelerated Speed and Improved Quality of Our Region's Economic Operations in First Half Year"]

[Text] According to economic operations statistics recently released by the Statistics Bureau of this autonomous region, our economic development gradually picked up speed, and the quality of our economic operations improved during the first half of this year. The region's total output value of goods and services amounted to 4.3 billion yuan, being 9 percent more than the same period last year. However, there existed a number of problems, such as shortage of capital funds, insufficient transportation facilities, considerable price hikes, and poor economic efficiency, all of which deserve our attention.

—With an increased acreage of summer-ripening grain crops, we are sure to have a bumper summer harvest. This year we have 5.774 million mu of summer-ripening grain crops, surpassing last year by 1.241 million mu and reaching a record high. For all crops, the acreage this year has been expanded in varying degrees, except for the area sown to wheat, which remains at the normal level. The total harvest of summer grain in the region this year is estimated at about 870,000 tons, or an 18 percent rise over last year. Of this, output from irrigated areas will reach 550,000 tons, about the same as last year. In mountain areas, despite the drought and other factors that affected production in some places, the total output is still expected to reach 320,000 tons. This is more than 80 percent above last year's harvest.

—With regard to industry, production has grown faster, and economic efficiency has improved. After picking up the speed of development last year, industrial production has grown at an increasingly faster pace this year. From January to June, industrial enterprises at and above the township level around the region turned out a total output value of 4.52 billion yuan, or 15 percent more than a year ago. Of this, output value of heavy industry was 3.57 billion yuan, an increase of 18.5 percent, and light industry, 960 million yuan, an increase of 2.9 percent. Among the various economic sectors, nonstate-owned industry scored a remarkably quick growth rate. Compared with last year's corresponding period, output from township enterprises increased 47.6 percent, and other enterprises increased 85.3 percent, both far exceeding the 13.1 percent growth rate registered by state-owned industry.

Overall, industrial operations in our region showed a remarkable progress in the first half of this year. This was mainly reflected in the following: First, production growth was accelerated. Except for January, the months' growth rate was anywhere between 13.6 percent and 23.9 percent. Second, production and sales were well coordinated. From January to June, out of the total production, 4.35 billion yuan worth of products were sold. This was 20 percent more than the record for last year's corresponding period. The growth of sales surpassed the growth of production by 5 percentage points. The sales-to-production rate was as high as 95.4 percent, which was 4.8 percentage points higher than a year ago. Third,

economic efficiency was raised to a remarkable extent. For the period from January to May, enterprises with an independent accounting system in our region scored a composite efficiency index of 74.0, which was 20.4 percentage point higher than the same period last year. Their profit and tax contributions to the government totaled 370 million yuan, or 110 percent more than last year's corresponding period. By the end of June, 18.8 percent of the enterprises suffered a loss. This was 2.5 percentage points less than a year ago.

—Investment was made on a wider scale, and efforts were beefed up to develop infrastructure construction. From January to June, national units located in this region invested 837 million yuan in fixed assets (excluding the Zhongwei-Baoji Railway project), an increase of 55.8 percent over the same period last year. Investment in capital construction amounted to 512 million yuan, an increase of 53.1 percent over last year's corresponding period. Another 507 million yuan were invested in energy and raw materials industries, transportation facilities, postal and telecommunication projects, and other infrastructure programs. This amount exceeded the investment made a year ago by 49.4 percent.

—Purchase and sales were brisk on both urban and rural markets, while a larger rise in commodity prices was noted. During January to June, retail commodity sales in the region totaled 2.157 billion yuan, or 18.6 percent more than last year's corresponding period. The general retail price index rose 10.7 percent, and cost of living 11.5 percent compared with the records registered a year ago.

—Residents earned more income, and their living standard continued to improve. During January to June, an urban resident earned an average income of 921 yuan for living expenses, up 24.67 percent over the same period last year. As for farmers, the per-capita cash income averaged 272 yuan, showing an increase of 24.2 percent. After adjustment for inflation, the actual increases were 11.9 percent and 10.2 percent respectively. As of the end of June, bank savings deposits of urban and rural people totaled 5.204 billion yuan, up 16.1 percent compared with the same period last year.

Problems deserving attention at present are as follows: First, capital shortage and insufficient transportation facilities are striking problems. Their effect on curbing economic development is becoming more and more apparent. Second, a sharp rise in prices for means of agricultural production is exerting a negative effect on the development of agriculture. Third, on the whole, the quality of our region's economic operations is still low.

Shanxi Statistical Bureau Report on Economic Development

93CE0782A Taiyuan SHANXI RIBAO in Chinese 20 Jul 93 p 2

[Report by the Shanxi Statistical Bureau: "Shanxi's National Economic Developments During the First Half of 1993 and Development Trends for the Year"]

[Text] In the first half of 1993, driven by Comrade Deng Xiaoping's southern-tour speeches and the spirit of the 14th CPC Congress, Shanxi's economic development pace was clearly faster, with GDP estimated to be up about 14 percent over the first half of 1992. We had a bumper summer grain harvest, a synchronized growth of industrial output and efficiency, higher revenues, brisk markets, an emphasis on investment priorities, more rational structures, and a continued increase in urban and rural incomes. While we generally intensified our reforms steadily, and are gradually evolving the framework for an economic system based on market operations, our economic operations suffered from too much currency issue and sharpening fund shortages and revenue difficulties, with efficiency remaining the crucial problem in our economic operations, and the lagging reforms in certain fields of our macroeconomic management system unsuited to the rapid conversion of our microeconomic activities to a socialist market economy foundation.

Economic Growth Was Faster, While Operations Were Basically Normal

In the first half of 1993, economic development throughout Shanxi was vigorous, with all indexes showing a stronger growth momentum.

1. Our Rural Economy Continued To Grow, With a Bumper Summer Grain Harvest

With the "one resistance and two guarantees," our spring planting was solid and effective. Since the spring of 1993, Shanxi had been subject to sharp winds, high temperatures, and little rainfall, making spring planting very difficult. So we launched at all levels throughout Shanxi a mammoth anti-drought struggle, with all areas conducting solid and effective "one resistance and two guarantees" work. By 25 May, the data shows that our spring planting area throughout Shanxi had reached 26.585 million mu, up 1.445 million mu from the same period in 1992. We somewhat adjusted our spring-planting crop structure, with more area sown to grain and vegetables, and less to cash crops.

We had a bumper summer grain harvest. As we emphasized agricultural production, going in a big way for S&T invigoration of agriculture and construction of water conservancy infrastructures, fully displaying the might of our "wind-power plan fields," and widely disseminating improved varieties, such as "Lu wheat No 14," we reaped a bumper summer grain harvest. Projecting from samplings of our 17 summer-grain-surveyed counties,

Shanxi's summer grain output reached a record 3.364 billion kg, up 18.2 percent from 1992. This included wheat output of 3.254 billion kg, up 18.5 percent from 1992, and output of summer grains other than wheat and rice of 110 million kg.

Our livestock industry output grew steadily. By the end of June, we had 3.013 million head of large livestock, up 2.1 percent from the same period in 1992, including 1.862 million head of cattle, up 3.2 percent. We had 3.938 million hogs, up 3.5 percent, and 7.502 million sheep and goats, up 1.5 percent from the same period in 1992. Our meat output was 162,000 tons, up 11.3 percent. Our milk output was 89,000 tons, up 1.6 percent. As our poultry and egg demand was up, market prices rose, while poultry and egg output grew faster.

Our township industries grew rapidly. Statistics from the Shanxi Township Enterprise head office for the first half of 1993 show our township enterprise gross output value was 32.31 billion yuan, up 92.5 percent from the same period in 1992, while our township enterprise gross income was 26.23 billion yuan, up 100 percent.

2. Our Industrial Output Grew More, With Some Improvement in Our Economic Efficiency Index

Our industrial output grew more quickly. In the first half of 1993, Shanxi's GVIO [Gross Value of Industrial Output] (not including industries at the village level and below) was 30.75 billion yuan, up 14.6 percent from the same period in 1992. All of our 12 prefectures and cities had higher GVIOs that for the same period in 1992, with Yuncheng Prefecture having the highest growth at 24.8 percent, and Yangquan City the lowest at 7.6 percent. Ten of our 14 industrial departments and bureaus experienced growth. As to our 65 key industrial goods, output was up from 1992 for 38, or 58.5 percent, including growth of 11.8 percent for raw coal, 31.9 percent for washed and picked coal, 59.1 percent for coke, 9.9 percent for generated power, 94.7 percent for pig iron, 16.9 percent for steel, 34.1 percent for rolled steel, and 30.2 percent for cement.

The faster growth in investment demand was one of the key driving forces in our industrial development. In 1993, national investment demand continued to maintain a strong growth momentum, with Shanxi's emphasis on industrial structure and most of our heavy industrial goods radiating throughout China to directly drive Shanxi's sustained rapid growth of heavy industry. In the first half of 1993, Shanxi's heavy industry output value reached 24.16 billion yuan, up 17.8 percent from the same period in 1992, and 13.6 points higher than for light industry. Its higher output value of 3.65 billion yuan made up over 93 percent of our whole higher industrial output value.

The rapid growth of nonstate industry was another key driving force in Shanxi's industrial development. In the first half of 1993, while our state economy's GVIO was 21.02 billion yuan, up 8.4 percent from the same period in 1992, our nonstate economy's GVIO was 9.73 billion yuan, up 34.6 percent. Our ratio of nonstate industry new output value to all industry new output value was up from 29.8 percent for the first half of 1992 to 58.4 percent.

Our industrial goods production-sales rate was up somewhat. Shanxi's industrial goods production-sales rate rose from 81.3 percent in January to 92.8 percent for the first half of 1993, including growth of 90.2 percent for light industry, 93.4 percent for heavy industry, 95.9 percent for central enterprises, and 91.7 percent for local enterprises.

Our economic efficiency indicators improved somewhat. In the first half of 1993, Shanxi's locally budgeted industrial enterprises had sales income of 13.23 billion yuan, up 37.4 percent from the same period in 1992, realized profits and taxes of 2.18 billion yuan, up 82.9 percent, realized profits of 960 million yuan, up 190 percent, paid profits and taxes of 1.1 billion yuan, up 35.2 percent, and 230 losing enterprises, with losses down 11.2 percent. Our overall industrial economic efficiency index for the first five months was 93.5 percent, up 3.9 points from that for the first four months, and up 22.1 points from the same period in 1992, exceeding our average for the whole Seventh Five-Year Plan.

3. Our Fixed Assets Investment Was Up Sharply

Our investment increased faster month after month. In March, with the arrival of the construction season and the gradual placement of funds, our fixed assets investment experienced a strong growth momentum. For the first quarter of 1993, Shanxi's capital construction and upgrading investment reached 590 million yuan, up 31.3 percent from the same period in 1992, which figure was 1.4 billion yuan for the first four months, up 39.5 percent, 2.63 billion yuan for the first five months, up 68.9 percent, and 4 billion yuan for the first half, up 44.3 percent.

Investment increased faster for local than central projects. In our capital construction and upgrading investment for state units in the first half of 1993, Shanxi's local project investment was 1.57 billion yuan, up 54.5 percent from the same period in 1992, while our central project investment was 2.42 billion yuan, up 38.4 percent, meaning that investment increased 16.1 points faster for local than central projects.

Increased self financing and bank loans were the key funding sources maintaining our high fixed assets investment growth. In the first half of 1993, of our accumulated allocations for capital construction, self-financing accounted for 980 million yuan, up 61.7 percent from the same period in 1992, while domestic loans accounted for 1.12 billion yuan, up 12.6 percent.

We invested a higher percentage in intensive expanded reproduction. 1) Our investment growth was basically synchronized for upgrading and capital construction. In the first half of 1993, Shanxi's upgrading investment

reached 960 million yuan, up 43.9 percent from the same period in 1992, while our capital construction investment was 3.04 billion yuan, up 44.4 percent. 2) Our reconstruction investment was clearly up. Our capital construction rebuilding investment grew 127 percent, higher that that for either new construction or expansion.

In short, while Shanxi's fixed assets investment clearly grew less than the national average, leaving us with an even greater gap with developed coastal zones, we did emphasize priorities to make our structure more rational, with investment in basic industries and infrastructures, such as power, transportation, water conservancy, agriculture, and post and telecommunications, making up over 80 percent of the whole, and our investment orientation being in line with national policy, which has basically paved the way for Shanxi to reach new economic heights.

4. Our Markets Were Brisk, With Steady Increases in Sales

Markets were stable. In the first half of 1993, Shanxi's retail commodity sales reached 12.84 billion yuan, up 10.9 percent from the same period in 1992. As to development trends, our retail commodity sales grew steadily faster in relation to 1992, being up 6.4 percent for the first quarter, 9.3 percent in April, 18.4 percent in May, and 19 percent in June.

Our consumer goods market sales were brisk. In line with the features of Shanxi's current transition from people having enough to eat and drink to becoming comfortably well-off, our consumption structure showed new features. As to food commodities, supplies and sales were stable for basic daily necessities, such as grain, cooking oil, and nonstaple foods, with steady growth in areas such as aquatic products and sugar, and sales up 37.4 percent for aquatic products and 8.4 percent for sugar over the same period in 1992. Regarding commodities, sales were up 14.6 percent for all types of clothing, 20.2 percent for VCR's, 36.3 percent for cameras, and 31.5 percent for refrigerators. Gold jewelry, experienced a certain consumer fever, with rising prices.

Commodity supplies were abundant, with name brands making an increasingly clearer impact. Market commodity supplies are now abundant, with a sizeable percentage of commodities being basically balanced as to supply and demand or in long supply, and consumers having a stronger choice mindset and more room to maneuver. In expensive commodities, the brand-name impact is obvious, with certain reputable, quality, and brand-name specialties being in short supply, and even in some cases sold out, while other low-quality, poor-service, and out-of-style products are hard to sell and severely overstocked.

5. Our Revenues Were Larger Than Our Spending, With Credit Savings Growing More Than Loans

In the first half of 1993, Shanxi's revenues reached 3.29 billion yuan, up 14 percent from the same period in 1992, while our spending was 2.5 billion yuan, up 25 percent. So on balance, our revenues were 790 million yuan larger that our spending.

By the end of June, Shanxi banks had a deposit balance of 49.83 billion yuan, up 2.86 billion yuan from the beginning of 1993, or 6.1 percent, with a loan balance of 54.5 billion yuan, up 2.33 billion yuan from the beginning of 1993, or 4.5 percent. By the end of June, Shanxi's urban and rural savings deposit balance was 40.8 billion yuan, up 4.35 billion yuan from the beginning of 1993, or 11.9 percent.

In the first half of 1993, Shanxi banks put a net worth of 5.6 billion yuan in currency into market circulation, up 97.2 percent from the same period in 1992.

6. Incomes Continued To Grow

A sampling for the first half of 1993 shows Shanxi per capita urban cost-of-living incomes at 813.25 yuan, up 21.6 percent from the same period in 1992, and peasant per capita cash incomes at 296.02 yuan, up 13.5 percent.

Factors Having an Adverse Impact on Economic Development

In 1993, while Shanxi's economy has made great advances, certain glaring conflicts and problems have also appeared. These are mainly:

Revenue difficulties sharpened steadily. This was seen mostly in slow growth of revenue, a faster rise in spending, tight fund control, and sharpening difficulties. By the end of June, while Shanxi's GVIO was up 14.6 percent over the same period in 1992, and our enterprise economic efficiency was generally somewhat improved, our revenues, excluding inflation and increased output, were up only 4.97 percent from the same period in 1992, or 9.6 points less than our GVIO, and far less than our enterprise economic efficiency. In the first half of 1993, while Shanxi's social commodity retail turnover was up 10.9 percent over the same period in 1992, business taxes from the commercial sector were down; and while our collective economy grew rapidly, collective enterprise income taxes fell 20 percent. By the end of June, our spending was up 25 percent over the same period in 1992. Revenue funds at all levels were tightly controlled, particularly at the county level.

Price increases were quite large, with sharpening inflation pressures. In 1993, Shanxi prices rose month by month on top of 1992's high base. In the first half of 1993, our overall retail prces were up 10.2 percent over the same period in 1992. For the first 5 months, consumer prices were up 12.1 percent over the same period in 1992. Our 1993 price features are: 1) Price increases on a wide scale. Consumer goods prices and agricultural capital goods prices clearly rose more. 2) Our urban and rural price-rise gap gradually shrank. In May, rural prices were up 10.7 percent, while urban prices were up 14.3 percent.

Foreign-trade exports were down, while imports rose strongly. In the first half of 1993, Shanxi's foreign trade turnover was $366 million, up 2.8 percent from the same period in 1992. This includes imports of $66 million, up 51 percent from the same period in 1992, and exports of $301 million, making up 46.3 percent of Shanxi's plans, and down 3.5 percent from the same period in 1992.

Our credit imbalance conflict sharpened somewhat, with a strong growth momentum of cash put into circulation. In the first half of 1993, Shanxi had new deposits of 2.86 billion yuan, up 4.04 billion yuan less than for the same period in 1992, and new loans of 2.33 billion yuan, only 960 million yuan less than for the same period in 1992. By the end of June, our bank loan balance was up 17 percent from the same period in 1992, or 6.4 points more than our deposit balance growth of 10.6 percent. Meanwhile, cash spending grew rapidly, too little currency was withdrawn from circulation, circulation outside of the system was serious, and public fundraising was quite unchecked.

"Bottleneck" restraints remain serious. Transportation and communications remain the key limiting factors in our industrial production. For the first five months, Shanxi's railway freight volume was up 2.4 percent over the same period in 1992, far less than our industrial production growth of 14.7 percent. Meanwhile, power supply shortages and severe water resource deficiencies also affected further production development.

Economic Trends for 1993

Based on our current state of economic operations and changing macroeconomic climate trends, in light of the impact of further tightening of funds, transport capability, and supply and demand, and in consideration of factors, such as 1992's base, we project that Shanxi's 1993 GDP will be up about 12 percent over 1992.

Shanxi is putting more emphasis on agriculture in 1993 than in any recent year. In light of our bumper summer grain harvest and good spring planting, unless we suffer from a great natural disaster, our 1993 grain output is likely to approach or surpass 1992's level, with good prospects for our agriculture and rural conditions to reach new heights.

In light of limiting factors, such as transport capacity, demand, and funding, while our industrial production may grow more slowly in the last half, its growth rate will be up sharply from 1992, possibly setting a record for our 14 years of reform. We project a 1993 GVIO up about 12.4 percent from 1992.

The state will take steps to control investment in the last half of 1993. Meanwhile, fund shortages will likely obstruct investment progress, lowering our investment growth rate somewhat from the first half. But we project that our 1993 fixed assets investment will be up about 30 percent from 1992.

Our market trend for the last half of 1993 will be further invigoration. We project that our 1993 retail commodity sales will be up more than 16 percent from 1992.

As 1993 is a crucial year for Shanxi's Eighth Five-Year Plan, ensuring the sustained, steady, and balanced growth of Shanxi's national economy will mean working under the correct leadership of our provincial party committee and government to further intensify our macroeconomic reforms, particularly of our banking, revenue, and investment systems, correspondingly transform our government functions, and speed up our pace of enterprise operating-forces conversion, in order to bring into full play the macroeconomic regulation and control capability of economic leverage under market economy conditions, thus effectively curbing and overcoming certain unhealthy phenomena in our current economic operations, and successfully achieving the objective of pushing our national economy to new heights.

FINANCE, BANKING

Communications Bank Model for Commercial Banks

93CE0803A Beijing JINRONG SHIBAO in Chinese 30 Jul 93 p 3

[Article by Ruan Hong (7086 4767): "Exploring the Development of Commercial Banks—Written Seven Years After the Reconstitution of the Bank of Communications"]

[Text] Seven years of practice since the reorganization in 1986 of the Bank of Communications [BC] has proven that development of standardized commercial banks is beneficial not only for the improvement of financial services, and for the more effective use of funds, but also for improving the macroeconomic regulation and control mechanism in financial matters, and for the establishment and perfection of a financial system that is consistent with the socialist market economy. At the end of 1992, the BC's total assets amounted to 157 billion yuan, its capital net worth amounted to 11.2 billion yuan, and it had 75 domestic branches and 23,000 employees. Thus, a national stock commercial bank has been formed.

A commercial bank adopts the shareholding system as its ownership pattern. It institutes the general manager responsibility system, under the direction of a board of directors. It effects separation of proprietary rights and managerial rights. It changes the bank's past status as an organ of the government administration to that of a true enterprise with the status of a legal person, and it thus creates favorable preconditions for a shift in its operational mechanism. Thus, it will create the microeconomic foundation for a new system of financial organization. At the end of 1992, the paid-up capital of the BC was 6 billion yuan and its accumulations amounted to 1.6 billion yuan, of which 23 percent were state-held

shares, 42 percent were shares held by 263 local financial institutions, and 35 percent were shares of 1,812 enterprises. With 1.4 billion yuan in shares, the central authorities controlled the 6 billion yuan of the total share capital, and could thus direct 157 billion yuan of assets to support economic construction according to the state's general and specific financial policies. The board of directors, composed of delegates of the various shareholders, while implementing the state's financial and fiscal laws and regulations, decides on the major issues in the business operations and management of the bank. This does not weaken the state's macro-regulation and control, while it serves at the same time to strengthen supervision over the business operations of the bank, and in this way contributes to the sound development of the bank. On the one hand, it ensures the state's fiscal revenue and on the other hand establishes a beneficial system of common sharing of profits and of common assumption of risks among all shareholders.

A commercial bank engages in a comprehensive range of business activities. It is a two-way relationship between the bank and the enterprises; it is a new financial order, which improves the capability for comprehensive service and makes for division of labor, cooperation, and rational competition. Comprehensive scope of commercial bank operations is what is required in China's reform of the economic structure and in its economic development, as it is also the developmental trend of a commercial bank toward becoming an international bank. As the BC aspired to engage in a comprehensive scope of banking operations, the state explicitly decreed, at the time of the bank's reconstitution, that it may indeed engage in 14 lines of business. In accordance with China's national condition and international practices, the BC accurately dealt with the relationship between comprehensive operations and attention to specific lines of business. In its business operations, it is giving priority attention to domestic and foreign currency business and to various types of long-term and short-term banking. In the operation and management of non-banking monetary business, the bank would act discriminatingly. To keep insurance business involving large risks outside of the bank's main operations, it established a fully self-financed subsidiary, the China Pacific Insurance Co. To handle securities business, it established four securities trading companies to take care of overall securities business, and set up over 50 securities departments, limited to deal with secondary market business. It limited investment business to within 30 percent of the bank capital plus accumulations. There is no fixed division of labor between banking services and the recipients of such services; it is a two-way free-choice relationship between the bank and the enterprises. On the one hand, the bank has established an excellent cooperative and partnership-like relationship between bank and enterprises, and on the other hand the bank has maintained for itself the advantage of being able to select optimal customers according to the state's industrial policy and the capital fund situation at the bank, and thus to achieve its objective of attaining an optimal credit structure.

A commercial bank establishes a business mechanism of independence in business management, responsibility for own profits and losses, self-restraint, and self-development. The bank's control over its assets-liabilities ratio and control of risks is beneficial for total quantitative control of finances in macroeconomic respects and for structural readjustments. The BC established a system of controlling the use-ratio of capital funds, a system of supervision and control of credit and asset quality, and a system of comprehensive analyses of the financial situation. The bank has also set up at the main office and at two ranks in its jurisdictionally subordinated branches asset and liability control committees, which conduct quarterly complete analyses and assessments of the implementation of the said three systems, a method which improved the liquidity, security, and profitability in the use of capital funds. The BC always maintains a payment reserve fund at the central bank at the rate of around 10 percent of all payments coming due, which ensures liquidity at any time that demand should arise. Most recently, the BC has also subscribed to 2 billion yuan of central bank bonds, to support procurement of agricultural and sideline products. This was indeed a certain contribution toward balancing the nation's credit plan and toward enlivening the money market. During the first quarter of this year, the proportion of all the bank's loans to the total deposits plus capital accumulation was 68 percent. Overdue accounts, inactive accounts, and bad debts were controlled to within 5.1, 1.2, and 0.06 percent, respectively, of the total amount of loans. In 1992, the bank earned a total of 2.7 billion yuan of profits. Domestically, the rate of return on capital was 31.5 percent and the per capita profit was 122,000 yuan, thus achieving rational coordination of a threefold nature and manifesting the advantages of asset-liability control and risk control.

Commercial banks establish branch organizations according to economic districts, which helps breaking down various barriers in the use of funds, and which will also promote formation of horizontal ties and development of financial markets. The BC has established branches under its jurisdiction in the six key cities of the country, each jurisdictionally subordinated branch is in charge of several supra-provincial and supra-municipality sub-branches; it has in addition also established three directly subordinated branches. Up to the end of this year, it will have set up 91 branches in 90 cities. The organizational system of the BC is well suited to the formation of horizontal economic ties and to the development of market economy. Together with the four cities of Shanghai, Nanjing, Wuhan, and Chongqing, the BC organized the Changjiang Economic Development Corporation. This move led to an economic union among the districts on the middle and lower reaches of the Changjiang, and was much welcomed by all parties concerned. It also fully manifested the advantage of the

BC's initiative in setting up organizations according to economic districts. As from this year, every branch of the BC will deposit 5 percent of its own deposits with the bank's head office, where such funds have by now accumulated to a capital fund of 4 billion yuan, forming the core of the bank's loan capital. This will be an even more effective move to promote economic cooperation and to break down financial barriers.

While implementing all general and specific financial policies of the state and increasing liquidity and safety in the use of available capital funds, a commercial bank will endeavor to increase income and limit expenditure, thus to continuously increase its profits, and in this way also increase the value of state assets and of state accumulations. The BC is strictly observing the central bank's rules on interest rates. By means of reducing capital costs, reducing management expenses, and raising asset quality, the BC has been able to maintain a very high rate of profits. Last year, the total payroll accounted for around 2.5 percent of the entire bank profits, which was about one-third of the rate achieved on the average by specialized banks, while 97.5 percent of the net profits earned are becoming accumulations of the state, the shareholders and of the bank itself.

Futures Trade Activities, Prospects

93CE0803B Beijing GUOJI SHANGBAO in Chinese 1 Jul 93 p 4

[Article by Chen Zhijun (7115 1807 6511): "Present State and Prospects of China's Trading in Futures"]

[Text] The four necessary components of a complete futures market are: 1) commodity exchanges; 2) commodity clearing houses; 3. futures brokers; 4. traders (comprising holders and speculators). Of course, a futures market also requires assurances in the legal system and an adequate infrastructure. An analysis of the present state of futures trading in China and its problems follows.

Establishment and development of commodity exchanges: In October 1990, the Ministry of Commerce and the Henan Provincial government established in Zhengzhou China's first futures-oriented commodity exchange—the Zhengzhou Grain Wholesale Market. This fact indicates that we have progressed from mere studies of futures trading to actual practice. The Zhengzhou Grain Wholesale Market has 256 members and mainly transacts business in agricultural products such as wheat and corn. Up to the end of 1992, it had traded 2.6 billion jin [1.3 billion kgs], to a total of 1.04 billion yuan, and settlement prices began to have an effect on prices for agricultural products throughout the country. The success of this experiment encouraged development of Chinese commodity markets, which thereafter shot up in various forms all over the country "like bamboo shoots after a spring rain." On 18 January 1992, the subsidiary of the China Nonferrous Metals Industrial National Co. and the Shenzhen Materials Company jointly financed the establishment of the Shenzhen Nonferrous Metals Exchange, which now has a membership of 83. Its transactions, to the end of 1992, amounted to over 3 billion yuan. In May of 1992, the Ministry of Materials and the Shanghai municipal government jointly financed the establishment of the Shanghai Metals Exchange, which has up to now been the most successful commodity exchange. It provides 68 member seats, and mainly deals in copper, aluminum, lead, zinc, tin, nickel, and pig iron. Its transactions, up to the middle week of April 1993, had a value of 120 billion yuan, and its record day saw transactions amounting to 2.5 billion yuan. It has become the world's third largest metal exchange, trailing only London and New York, and its settlements have begun to affect rates on the world's metal markets. The subsequent Nanjing Petroleum Exchange was formally inaugurated in March of 1993. Preparations are also being pushed for the establishment of a Shanghai petroleum exchange, a Shanghai grain exchange, and a Guangzhou rubber exchange, whose inaugurations can be expected soon. However, in a strict sense, these exchanges are not yet futures markets, because their delivery contracts are not standardized contracts—they can only be regarded as long-term forward contracts—but these exchanges are now on the way to becoming futures markets. As early as 31 March 1993, the Shanghai Metals Exchange had turned out a standard contract for copper, and the Nanjing Petroleum Exchange has turned out a standard contract for light diesel oil. After the Zhengzhou Grain Wholesale Market is renamed the Zhengzhou Commodities Exchange, it will turn out standardized contracts for corn and wheat. Apart from these developments, the Shanghai Stock Exchange and the Shenzhen Stock Exchange are preparing to publish a Shanghai stock index and a Shenzhen stock index, and will subsequently start the first domestic futures markets for metals.

As to the establishment and development of futures brokerage firms, various types have appeared one after another, following growing import-export activities and the establishment of domestic commodity exchanges:

1. To accommodate import-export trade, large corporations with import and export privileges, such as the China International Trust and Investment Corporation, the China National Metals Import & Export Corporation, the China Grain Import-Export Corporation, and the National Nonferrous Metals Corporation have one after the other set up futures departments, mainly for their own trading in futures, but also as agents for others; however, they each handle only a limited scope of commodities.

2. Some Hong Kong and Taiwan brokerage companies have come to China to set up liaison offices to represent their clients in international futures transactions, but most of them have not received permission from the relevant state agencies in charge of industrial and commercial affairs.

3. Futures brokerage firms set up by local governments and organizations subordinated to certain ministries and commissions, mostly in cooperation with Hong Kong and Taiwan firms, are capitalized at from several million to 20 million yuan.

In December of 1992, the China International Futures Co. Ltd. [CIFC] was established as the state's first large-scale futures brokerage corporation. It signified the state's official recognition of the legal position of futures brokerage, and also signifies a new era for Chinese futures markets. The CIFC and its branch organizations will be managed with strict self-discipline and will become a model for the sound development of Chinese futures brokerage firms.

Even though the trend in the development of futures markets is commendable, there are also some problems that demand prompt attention:

First, the problem of laws and regulations. In all countries and territories with well-developed futures markets there are strict national laws governing trading in futures, and there are also specialized administrative organs that exercise control. This alone will ensure normal and effective operations of futures markets. China should also soon establish such institutions.

Second, the problem of creating a unified large market. In China, administrative controls had for a long period of time presented a picture of "barriers between all the different departments and regions," a state of things which hampered the formation of a unified large market. This is reflected in the fact that recently established commodity exchanges are not only limited in the scope of commodities they are ready to handle, but that there is duplication in the establishment of such markets which in turn leads to increased competition and much waste. This fact is amply confirmed by the friction between the Nanjing and the Shanghai petroleum exchanges, between the Shanghai Metals Exchange and the Shenzhen Nonferrous Metals Exchange, and between the Shanghai Grain Exchange and the Zhengzhou Commodities Exchange.

Third, the paucity of the speculative element. For a futures market to operate highly effectively, to fully fulfill its economic function, there must be a large number of speculators participating in it. The meaning of "speculation" in this context is different from what it meant in the oft-used phrase "speculating and manipulating the market," and it is also essentially different from gambling. To increase the speculative element in futures trade, three things are required:

1. Correcting one's concept, not always regarding "speculation" as a derogatory term.

2. Spreading knowledge of futures trading and stepping up the promulgation of relevant legal provisions, having speculators gain full knowledge of futures market activities, doing a good job of the necessary psychological preparation, and at the same time provide all necessary protection.

3. Changing the membership structure of the commodity markets and allowing more futures brokerage companies into the futures market, not just production and marketing factories and firms.

Fourth, the need to step up perfection of the infrastructure and of various ancillary services. A highly efficient futures market has to rely on the support of a perfect infrastructure, such as transportation, communication, and storage facilities, as well as on availability of high-quality finance and information services. At present, the crucial point is to urge banks to soon become members of the clearing houses at commodity markets, also to improve their past service methods, speed up allocation and transfer of funds, and also to provide speedier service in an information network between the various large commodity markets.

Fifth, effectively prepare for the admission of foreign enterprises and futures brokerage companies to membership in the commodity markets, so that China's futures market will become an important component of the international futures market.

Although the present Chinese futures market is still beset with various problems, it is a fact that with the establishment of China's socialist market economy system, development of futures markets has become the trend of the times. With the gradual abolition of planned prices, fluctuations in prices, interest rates, and exchange rates will become more intense, which entails greater risks for production and trade. Producers and traders will therefore be compelled to seek a new mechanism of price formation and for new tools to control the risks. Reviewing all the trading forms that presently exist, it is only futures trading that can take on this task. One may safely predict that as long as China will not change its policy of the socialist market economy, futures markets are bound to flourish and develop all over the vast territory of China

Industrial, Commercial Revenues 'Increase'

93CE0803C Beijing ZHONGGUO SHUIWU BAO in Chinese 26 Jul 93 p 1

[Article by correspondents Li Kuai (2621 6778) and Wei Hua (5898 5478): "A Total of 141 Billion Yuan in Industrial and Commercial Tax Revenue During First Six Months—An Increase of 12.4 Percent Over Same Period Last Year"]

[Text] According to statistics of the State Tax Administration, total national revenue from the industrial and commercial tax during the first half of this year reached 141 billion yuan, which was a 12.4 percent increase over the corresponding period of last year, and which fulfilled the yearly plan to 47.6 percent.

By tax categories, we see that the added value tax brought in 41.2 billion yuan, an increase of 21.1 percent, making up 46.1 percent of the increase in industrial and commercial tax revenue. The main reason for the especially large increase in added tax revenue is the large increase in fixed capital investments and the price increase factor. In the said figure, increased revenue from steel billets and steel products was 42.6 percent, increased revenue from machinery and mechanical equipment was 31.6 percent, and increased revenue from construction materials was 59.5 percent. Business tax revenue was 39.4 billion yuan, an increase of 22.8 percent, making up 46.8 percent of the increase in industrial and commercial tax revenue. In this figure, the commercial business tax revenue increased 24 percent, somewhat higher than the increase rate of the total amount of retail sales of social commodities. Tax revenue from foreign business activities was 8.1 billion yuan, a 65.9 percent increase. Apart from the three above-mentioned major tax categories, there was a 25.5 percent increase in the tax revenue from the income tax paid by individual industrial or commercial entrepreneurs in the urban and rural areas, and a 33.9 percent increase in the regulatory tax on individual incomes. The main tax categories that registered declines were: the products tax, with a decline of 8.4 percent, as there had been a decline in all the main products, with the exception of electric power and coal. In this category, due to funding reasons, cigarette and crude oil tax revenue declined by 15.3 and 15.5 percent, respectively. Revenue from income tax on corporate enterprises declined 13.4 percent. Besides these, there had also been declines in the revenue from land use tax, bonus tax, investment directional adjustment tax, special fuel oil tax, and salt tax.

By regions, we see that 19 provinces (autonomous regions, municipalities) have had increases above the national average and have fulfilled their schedules by over half. The rates at which they fulfilled their schedules were: Tibet to 91 percent, Hainan to 69.4 percent, the offshore petroleum tax administration to 64.9 percent, Guangzhou to 57.1 percent, Tianjin to 55.9 percent, Ningbo to 55.7 percent, Fujian to 55.5 percent, Zhejiang to 54.8 percent, Shenzhen to 53.7 percent, Dalian to 53.1 percent, Shanghai to 52.7 percent, Changchun to 52.5 percent, Shanxi to 51.8 percent, Wuhan to 51.2 percent, Xinjiang to 51.1 percent, Guangxi to 50.7 percent, Qinghai to 50.6 percent, and Jiangxi to 50.3 percent.

On analyzing the tax collection performance during the first semester of this year, the most conspicuous problems have been tax owed by enterprises and steep increases in the amount of tax money withheld by banks. By the end of June, enterprises owed 10.92 billion yuan in taxes, and banks withheld 1.46 billion yuan in tax money. These two items together showed an increase of 3.87 billion yuan, compared to the corresponding period of last year. Thus enlarged, the figure accounts for almost 3 percentage points of the revenue from the industrial and commercial tax. Furthermore, the increase by 2 percentage points in the retail business tax rate has not yet been fully implemented. By June, 440 million yuan of increased retail business tax had actually been paid into the treasury; this is 560 million yuan less than prescribed in the plan.

For the second semester, all tax agencies will have an arduous task, as some unfavorable factors will have to be faced. As we understand, the economic growth rate in the second semester will be controlled, and the growth of industrial production is estimated at around 15 percent, which will restrict any increase in tax revenue. It will be more difficult than last year to alleviate the money shortage, and it will also be more difficult to achieve a settlement of outstanding tax debts.

The State Tax Administration has therefore directed all tax agencies to vigorously and realistically organize the impending tax collection task and to intensify departmental coordination so as to achieve an effective solution of the problem of outstanding taxes of enterprises and the problem of tax money withheld by banks. They should also as soon as possible implement the two percentage point increase in the tax on commercial retail sales, also conscientiously implement the spirit of relevant documents issued by the central authorities and strictly control the granting of tax reductions or tax exemptions. They should also improve tax collections from individuals, collection of the individual income adjustment tax, of the tax on foreign business activities, and of the tax on export tax refunds. They should improve control and administration of such key sources of revenue as the tax on cigarettes, crude oil, and refined oil. They should improve the checking, analyzing, and forecasting with regard to fulfillment of tax collection tasks, be at all times in full control of the situation, and promptly detect and resolve problems.

Article Urges Merging Dual Foreign Exchange Rates

93CE0713A Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 5, 15 May 93 pp 13-14

[Article by Yan Lihu (0197 4539 5706): "On the Issue of Merging the RMB Exchange Rates." The author is affiliated with the Jiangsu Branch of the State Administration of Exchange Control]

[Text] In 1979, China began implementing a foreign exchange percentage retention system under which the state would announce a RMB exchange rate to the outside world but would permit enterprises entitled to exchange retention and foreign-invested enterprises [FIE's] to regulate their foreign exchange with compensation within the country to balance their own surpluses and shortages. As a result, we have a "double-track" RMB exchange rate system where there is an external exchange price announced by the state and an internal exchange rate based primarily on the regulation price.

I.

For more than a decade, the "double-track" RMB exchange rate system has had a definite effect on lowering the cost of obtaining foreign exchange in noncommercial transactions and in strengthening the state's ability to regulate and control foreign exchange rates. But as China's reform and opening up deepen and with the construction and development of the socialist market economic system, the defects of the "double-track" system are becoming increasingly obvious. Primarily they are found in the following areas:

1. The "double-track" system hinders China's effort to further participate in international economic and trade cooperations and exchange. With China's economy becoming increasingly externally oriented and with the growing importance of foreign economic and trade relations, China urgently needs to regain its status as a GATT member, but that agreement requires that each member state adopt one exchange rate for its currency and that its currency be freely convertible to ensure free circulation in international trade. China's double-track foreign exchange rate system lowers the exchange rate in foreign trade and therefore internationally is treated as a serious trade barrier. Thus, looking at the development of the market economy today, to continue to implement the "double-track" exchange rate system will have an adverse effect on the rapid development of China's export-oriented economy.

2. The "double-track" system adversely affects the nurturing and development of foreign exchange markets in this country. First, under the double-track exchange rate system and quota management system, the absolute majority of foreign exchange transactions are quota transactions, but the quotas themselves have no real value; their exchange value is determined entirely by market supply and demand. Thus, since China's foreign exchange markets are relatively scattered, their scopes are small, and the changes in market supply and demand tend to be random, the price of these foreign exchange quotas tends to be volatile. Take the Jiangsu Foreign Exchange Regulation Center's regulation price for example. In the four years from January 1989 to January 1993, the price of exchange quotas fluctuated by as much as 84 percent; the spot exchange price also changed at a rate of 46 percent during the same period. The volatility of foreign exchange regulation price to a certain extent undermines the development of the foreign exchange market. Second, under this system, because there is much risk attached to the quotas, the central bank cannot give full play to its regulatory and control functions, and this often causes the exchange quotas to sink to disuse or to stockpile, which also deprives the foreign exchange market of an important guarantee for its healthy development.

3. The "double-track" system slows the import and export enterprises in changing their management system to meet the needs of the development of the socialist market economy. Currently, from the standpoint of the exporting enterprises, the double-track exchange rate system prevents them from cashing in some of the gains generated by their foreign exchange income, and to some extent, this weakens their foreign trade management ability. At the same time, fluctuations in quota price also force the foreign trade enterprises to take some exchange rate risks. From the standpoint of the importing enterprises, because using foreign exchange to import goods approved by the state and local governments generally entitles the importers to better rates than the official exchange rate, many enterprises compete to import goods. This obviously has an adverse effect on the importers' ability to improve their management ability and keeps them from changing their management mechanisms to better meet the intense competition in the international marketplace.

4. The "double-track" system cannot effectively regulate China's balance of payments and does not help us build a proper foreign exchange reserve. Under dual exchange rates, the state's list price cannot play its intended regulatory role. The state's adjustment of the list price may have some effect on the import-export enterprises' gains from exchange settlement and the cost of obtaining foreign exchange matching funds, but ultimately import and export profits are determined by the rise or fall of exchange regulation prices. Also, revenues and expenditures and purchase and sale of spot exchange that belong in the capital account actually are not affected by the list price. Therefore, although the state has the power to control the list price, changing it does not effectively regulate international payments. But on the other hand, although regulation prices have a regulatory effect on international payments, the state does not have the proper means to intervene in the regulation prices, and since regulation prices are not stable, under the current situation where the state does not have an ample foreign exchange reserve and the market is not fully developed, we are not equipped to regulate our international payments by changing the regulation prices. This means that under the "double-track" system, the state cannot effectively regulate international payments, and this also makes it difficult for the state to build a proper foreign exchange reserve.

5. The "double-track" system cannot effectively bring in foreign investments nor does it help increase the state's foreign exchange income. Under dual exchange rates, foreign businesses paying spot exchange for their investments are required to pay the state's list price when converting their currencies into RMB, even though in fact their foreign funds can be exchanged into RMB at the regulation price. So when foreign businesses calculate their capital contribution percentages, their actual capitalization and dividends, they find themselves losing money, and so they put up equipment as their investment instead, or they exaggerate the prices of their equipment or make their investments in RMB to avoid or to make up for the losses. To some extent, these lead to inadequate or fraudulent investments on the foreign investors' part. In addition, as far as the exporters are

concerned, using the state's list price to settle their foreign exchange will result in losses due to the price difference, and so when the difference between the state's list price and the regulation price is too big, some enterprises would rather leave their foreign exchange earning outside the country to cut losses. This adversely affects the state's normal foreign exchange income and undermines the proper foreign exchange control process.

Thus, the "double-track" system which is a temporary measure in the course of the nation's economic development should be restructured as the market economy, especially the export-oriented economy, develops. Judging by the current situation, reform must inevitably take the direction of merging double-track rates. Of course, because we have not solved the exchange shortage problem and readjustment of the exchange rate policy will involve the foreign exchange macro management system and so on, merging of the RMB exchange rates should be a vigorous but steady process premised upon further improvements in and stabilization of our balance of payment situation and should be founded on the gradual restructuring of the nation's pricing system and the step by step nurturing and development of foreign exchange markets.

II.

Looking at today's situation, we must first work hard in the following two areas to create conditions for merging exchange rates:

1. We should gradually promote the spot exchange retention system and amplify market mechanisms for exchange regulation and expand the regulatory scope of market rates.

The creation of a single exchange rate system implies the marketization of exchange rates, and so stabilizing the foreign exchange market is an important condition for merging exchange rates. Yet, so long as we still have foreign exchange quotas, stabilizing the foreign exchange regulation market obviously will be difficult. Therefore, today, by gradually promoting spot exchange retention and reducing the percentage of exchange quota collected by the state and reducing the scope and extent of planned control and centralized management, we can gradually eliminate quotas and turn all transactions in the exchange regulation market into spot exchange transactions. Thereupon, by adjusting the domestic currency policy and via market interventions, we can continuously strengthen the central bank's regulation and control of spot exchange transactions in the exchange regulation market to promote and guarantee stable foreign exchange regulation prices. On this basis, we can take a step further to increase the share of foreign exchange transactions in the regulation market and continuously expand the regulatory scope and increase the proportion of use of market rates to create conditions for merging the two rates.

2. We should gradually readjust the domestic pricing system, and in conjunction with our reentry to GATT, we should promote the merging of the domestic and international pricing systems. For years China has had a pricing system that was very different from the pricing system in the international markets, and this was due to many factors, among which were the market and the prices created by the "double-track" system. Today, the state's list price basically reflects the international to domestic price ratio of noncommercial goods (such as agricultural and sideline products, labor, and services) and the regulation price more or less reflects the international to domestic price ratio of commodities. So long as this kind of price relationship is not straightened out, blindly implementing a single exchange rate will bring losses to the state. Therefore, when we promote the merging of the exchange rates, we should accelerate the reform of the domestic pricing system. After we rejoin GATT, China will have even greater freedom to import and export, and this will have some impact on our existing pricing system. So today, we should strive to reduce the difference between the domestic and international pricing systems. On the one hand, when we increase the quantity of exports, we should strive to improve their quality and competitiveness to make sure that their prices are stable in the international markets and keep the cost of obtaining foreign exchange through exporting and the RMB exchange rate from taking turns in rising, as they have been in recent years, so that we can keep the international and domestic price ratio of commodities stable. On the other hand, while we steadily increase the wage income of the domestic work force, we should gradually raise the price of noncommercial goods, and when we ease the domestic transportation problems and the tight energy supply, we should promote the readjustment of the international and domestic price ratio of noncommercial goods so that eventually the domestic pricing system links with the international pricing system, thus laying the price reform foundation for merging exchange rates.

III.

As the above foreign exchange market conditions and price reform conditions gradually mature, the state can take steps to merge the dual exchange rates by continuously readjusting the official exchange rate and making timely interventions in the market rates. These two measures can be taken in three separate steps:

First, we want to peg the two exchange rates so that the market exchange rate and the official exchange rate can float together. That is, we should limit the difference between the market rate and the official rate. For example, we can limit the margin per dollar to under two yuan. If the list price per dollar is six yuan, then the market rate may vary between four to eight yuan per dollar. If the market rate exceeds this range, the central bank should step in to intervene in the foreign exchange market to keep the rate within range. If supply and demand in the foreign exchange market and our balance of payments should change radically, and market intervention is no longer effective, we should adjust the state's list price to keep the difference between the two

exchange rates within the margin. For example, if supply-demand relations change completely and the market exchange rate reaches one dollar to 8.5 yuan, and if market intervention proved ineffective, the list price should be adjusted to one dollar to 6.5 yuan. Thereupon, the market exchange rate may vary between 4.5-6.5 yuan per dollar, returning the difference between the two rates to within the stipulated margin. This method pegs the market exchange rate to the official rate as they fluctuate so that the two rates move in the same direction, paving the way for them to link tracks.

Second, we should gradually narrow the margin between the two pegged variable rates and pull them closer together. When the two exchange rates are pegged and begin to stabilize, depending on the economic situation at different times, and if the development of the foreign exchange market and the adjustment of the domestic price system so permit, the margin between the two rates should be narrowed. For example, the above-mentioned two-yuan margin may be adjusted to 1.8 yuan or even 1.5 yuan when possible, and the two rates may continue to fluctuate while pegged to this narrower margin until they stabilize, and then we can further narrow the margin so that the two exchange rates gradually merge into one.

We must have a basis for setting and adjusting the margin between the two rates. The basis is the difference between the domestic to foreign commodity price ratio and the domestic to foreign noncommercial goods price ratio. Theoretically, this is the difference in par purchasing power between domestic and foreign currencies in terms of commodities versus noncommercial goods. On that basis, and if we also fully consider China's balance of payments situation and the supply and demand situation in the foreign exchange market, we can set and adjust the margin.

Third, we should gradually reduce the margin to zero and merge the two rates. When the variable margin between the two rates has been greatly reduced, when the domestic pricing system has changed dramatically, when the foreign exchange market has become fairly matured, and when the domestic economic situation has become fairly stable, we can gradually narrow the margin until it completely disappears, and we should use various means to maintain that margin so that eventually the two RMB exchange rates merge into one.

INDUSTRY

Strengthen R&D To Bolster Electronics Exports

93CE0712A Beijing GUOJI MAOYI WENTI [INTERNATIONAL TRADE JOURNAL] in Chinese No 6, 30 Jun 93 pp 49-51

[Article by Sun Fenglin (1327 2800 2651) and Xuan Jiaji (1357 1367 7535) of the Economics Management Department, Hunan University: "Strengthen Scientific Research and Development, Strive To Expand China's Export of Electronics Products"]

[Text] **A. Strengthen Scientific Research and Development To Improve Competiveness of Electronic Products Export**

International competitiveness in export commodities can be divided into price competitiveness and nonprice competitiveness. Based on H. G. Jonnson's [as published] theory of international trade, the fundamental factor determining nonprice competitiveness is technological superiority. It is a reliable premise for ensuring product performance, quality, and trademark recognition, and technological superiority depends upon research and development. Another important factor determining nonprice competitiveness is sales promotion, including sales networks, delivery dates, advertising and publicity, after-sale service, and market survey and research. After the seventies began, progress in the technological revolution accelerated, and the nonprice competitiveness of electronic products tended more and more to be based on research and development, because there was more foresighted strategy for improving the competitiveness of products by research and development than by sales promotion.

The key to product innovation lies in the rate of new technology commercialization. After the seventies began, because of the acceleration of the pace of technological development, the service life of a new product became shorter and shorter, and competitors who entered a market faced a situation in which there were fewer potential customers and more competitors. Therefore, they had no choice but to begin a fierce competition in price, and at times there appeared a situation in which it was even impossible to recover their investment in scientific research. Japan is an up-and-coming industrially advanced country, yet is also a country that lags behind—particularly in high technology and basic research it is clearly inferior to European and American enterprises. However, in the newly arising science of electronic technolgy Japan is not backward; its research and development centers on the enterprise, and more than Europe and United States it stresses the commercialization and low cost of scientific inventions. Japan has made the integration of machine building and electronics a weapon for developing new products, so that in numerically controlled machine tools, processing centers, and robots, it repeatedly is the swiftest in the race, trying to be the first to take a market and playing a positive role in accelerating the improvement and updating of products. In 1982 Japan's CNC machine tools took 80 percent of the U.S. market and 30 percent of the West German and British markets. After the completion of product innovation, there is production and technology innovation with the goal of achieving low cost and high quality. This kind of innovation is regular and in large quantity. Through this kind of innovation a competitor who enters a market can later swallow his competitor's market and expand his hold on his own

market. Today, when competition in new product development is becoming increasingly fierce, more and more enterprises have come to understand that by using this market not only can they reduce high-risk investment but they can also make more profit than by developing new products.

From a look at technological superiority, we see that the United States is good at product innovation and Japan is the U.S.'s pupil, and Japan is good at making innovations in production and technology on its teacher's achievements. This kind of innovation includes both innovations in every technology and innovations in the system of mass production technology. This is precisely the reason that after the United States expended a lot of investment and manpower in product development of semiconductors and electronic products, its product markets, including markets in which it had been dominant for half a century, were engulfed by Japanese competitors.

In only 10 years China has imported a total of more than 2,000 foreign advanced technologies to create favorable conditions for China to develop its electronics industry and to raise the technological level of this industry. However, because its financial resources are limited, with regard to the electronics industry's technological transformation and its scientific research and development investment, no matter whether in absolute numbers or relative proportions, it is far inferior to the United States, Japan, and other industrially developed countries of the West and even cannot be compared to certain countries and regions in Asia.

To further improve the nonprice competitiveness of China's electronic products, we not only need to increase as much as possible investment in the electronics industry's scientific research and development; but also more importantly to study the successful experience of Japan's rapid development of its electronics industry, and to enhance the assimilation, digestion, and blazing of new trails in the importation of technologies. We must enhance the integration of science, industry, and trade; accelerate the commercialization of the results of scientific research; and not only attach importance to innovations in electronic products but even more attach importance to innovations in the production and technology of electronic products.

B. Measures To Expand Export of China's Electronics Products

1. With Market Demand as the Guide, Constantly Make Improvements and Blaze New Trails

Under the circumstances in which the service life of a technology and the service life of a product are becoming shorter and shorter, China's electronics industry, in order to compete on the international market, must do good research and development. In general the cost of research and development in U.S. electronic and high-tech industries is five to 10 percent of the sales volume, and IBM uses about $6 billion a year on research and development. Although China has stipulated that an amount equivalent to one percent of the sales volume can be deducted for the cost of scientific research and development in the electronics industry, this stipulation only applies to some electronic products, and also, for all sorts of reasons, it has not yet been completely honored. Therefore, we must strengthen input in this respect, start with market surveys, make market demand the guide, and, in line with customer demand, constantly make improvements and blaze new trails. The U.S. experience is: on the original base, add 10 to 15 percent for the cost of new technology and new stimulus, after which competitiveness in technology and price can be attained.

In the next 10 years China's export of electronic products will face powerful competitors. Therefore, in the first half of the nineties the necessary technological preparation must be made for China's export of electronic products. The export plan should receive the powerful support of the science and technology development plan; otherwise, it will lose the reserve strengthen for expanding exports and go on to lose a good opportunity after 1995 brought about by more prosperity in the world's trade in machine building and electronics products.

C. Strongly Develop the Technology for Integration of Machine Building and Electronics

In the nineties the electronic high-tech market will be one of the international markets in which growth will be fastest and competition fiercest. However, with regard to the capability for international competition, what is more important is that each country, in the production and management of traditional industries, will make use of its capacity for electronic high technology. Therefore, we must pay particularly close attention to the research and application of the technology for integration of machine building and electronics.

Machine building and electronic technology is a newly rising, comprehensive high technology that combines microelectronics technology, computer technology, information technology, and mechanical technology. Different from both traditional mechanical products and common electronic products, it is a new-type mechanical and microelectronic component, and in particular is a new generation electronic-mechanical product developed by combining a microprocessor and a microcomputer. The integration of machine building and electronics is a profound revolution in technology, and is also an inevitable trend in scientific and technological progress.

Now, the application and development of technology for the integration of machine building and electronics has also become one of the directions for China's scientific and technological development. The State Council has set up a leading group for the integration of machine building and electronics, and has made this integration one of seven projects in the 863 Plan of the State Science and Technology Commission. We must, in a focused

manner, arm our traditional industries with electronic technology and gradually make progress in this technology. Now, first of all, we must apply electronic technology to the machine building and electronics industry, in particular developing a new generation of products that integrate machine building and electronics, and that promote the improvement and updating of machine building and electronic products. For example: develop the flexible maintenance system (FMS), industrial robots, and computer-assisted design and manufacture (CAD, CAM).

D. Develop Timely Export of Computer Software

The focus of China's development of export in the electronic high-tech domain should be placed on computer software, for the following reasons:

1) Software technology has become a major prop for world informational and interchangeable technologies, and there are broad prospects for the development of the world software market. According to estimates, every year the volume of trade in world electronic technology grows about 6 percent, of which every year system and customer software grows 20 to 25 percent—in 1990 it was about $170 billion—and there is a very big potential market.

2) Software development accords with China's national condition. From designing, translating and editing, to safeguarding, software is an art of abstract thought, and it requires knowledge and skills in strict mathematical logic deduction. Chinese people are diligent and eager to learn. In history and after New China was founded, there has been no lack of talented people skilled in mathematics, and China has universally acknowledged mathematicians. Following the expanded coverage of modern computers, the rate of and demand for interchangeable software are becoming greater and greater. We should continue to strive for a major development in China's software export industry.

According to forecasts, in the nineties America will have a shortage of nearly 1 million software personnel and Japan will lack 600,000 software personnel. The software export industry is in a Golden Age of development. However, currently the development of programmed automated production and software development automation is very fast, and some industrially advanced countries have allocated huge sums of money for research in this aspect. Once a software development automated system is successfully developed, China will lose its superiority in low manpower cost. Therefore, we must act quickly to grasp the current golden opportunity and intensify the specific implementation of software export work.

E. Explore Use of International Start-Up Investment

Start-up investment goes after high returns and demands a faster rhythm in switching output and reselling in order for new products to go on the market at the optimum moment. The "Four Small Dragons" of Asia, in export trade, use start-up investment to achieve "high efficiency and fast tracking"; and they have been successful in this respect.

In its original English language, start-up investment meant risky investment, and it was mainly a new way of investment for developing high-tech products. In America there are now more than 580 start-up investment companies with a total capital of about $22 billion and an annual capital investment of $3 billion. Most of them are concentrated in Silicon Valley's scientific and industrial parks.

Start-up investment is characterized by taking high risks for high profits. 1) It strictly appraises and carefully selects investments, giving priority to the knowledge and ability of the one doing the start-up. In general, the selection rate is one percent. 2) It vigorously participates in enterprise administration and management and helps in its development, production, and sales so that technology, industry, and trade are directly integrated. 3) It practices "balanced compensation" in which there are more items in which there is simultaneous investment, separate-stage investment, and joint financing in order to spread the risk and ensure profits. 4) When a product tends toward maturity and superprofits from it can be obtained, it promptly sells stock certificates or resells the enterprise's recovered principal and interest, and puts the money in another newly started enterprise. 5) In pursuit of high recovery, start-up investment vigorously guides the transfer of a new product to low-cost regions abroad for processing and manufacture and, by displaying comparative superiority, improves returns.

The results of start-up investment operations are: 10 to 15 percent of such enterprises become successful, and some of them even develop by leaps and bounds to become world-famous big corporations; 10 to 20 percent fail; and 65 to 75 percent become ordinary enterprises. Start-up investment companies can use profits to make up losses, and in general their annual average profit rate is about 30 percent, far higher than a bank's interest rate.

From 1980 to 1989 the business volume of America's risk enterprises was as high as $340 billion, and their export income was $100 billion, thereby playing an important role in promoting America's high science and technology industries and economic development.

Now, some fairly far-sighted American capitalists realize that, with China's reform and opening up to the outside world, China, which has an industrial base and intellectual resources, can become a partner with much potential for cooperation. To obtain from China long-term interests, many figures in U.S. investment circles and enterprise circles have affirmed the possibility of cooperation in start-up investment, thereby showing an inclination for active cooperation with China. China might as well vigorously explore and make use of start-up investment to develop new technologies and new products in its electronics, and timely transfer output results and resell. In this way it can swiftly master modern new

technologies and market information, and obtain, digest and assimilate start-up advanced technologies suitable for market competition.

New Aerospace Industry Corporation Founded

HKCE070624 Beijing ZHONGGUO HANGKONG HANGTIAN BAO [CHINA AEROSPACE NEWS] in Chinese 13 Jun 93 p 2

[Article: "Understand Circumstances Clearly and Seize Opportunities To Accelerate Development of Aerospace—Excerpts of Liu Jiyuan's ((0491 4764 0626)) Speech at the Founding Meeting"]

[Text] In line with the State Council's ministry reform plan, and after several months of founding efforts, the Chinese Aerospace Industry Corporation formally announced its founding today. Henceforth, acting under the direct leadership of the State Council, the Chinese Aerospace Industry Corporation (CAIC), which is a scientific and technical industrial corporation on the leading edge of high science and technology, will be responsible for the twin tasks of modernizing national defense and serving national economic construction, as conferred upon it by the CPC Central Committee, the State Council, and the Central Military Affairs Commission. China's aerospace science and technology industry will enter a new stage of development.

The founding of CAIC is a major event of historical significance on the aerospace front line. It represents a major reform of China's aerospace science and technology industry management system and operating mechanism; it is an outgrowth of the widespread development of reform of China's economic system, and it is also a direct result of national agency reform. In line with the "three fixes" plan presented to higher authorities, CAIC is a science and technology industry corporation under ownership of the whole people that is on the leading edge of high science and technology, linking the military and the civilian and technology, industry, and trade. Its main tasks are: to act according to the principle of "devotion to aerospace, giving priority to military ordnance," to ensure the fulfillment of national defense and civilian aerospace scientific research and production command-style plans issued by the state, to improve business development and management, to vigorously develop the production of commodities for civilian use, to accelerate the development of tertiary industries and the transfer of aerospace technology to the national economy, to enhance international cooperation and exchanges, to hasten the shift from internal to external markets, to expand trade of military ordnance with foreign countries, to provide launch services, and to export satellites, aerospace commodities and associated technology and commodities used in civilian life, economic returns being the key in all these endeavors. Ultimately, CAIC is to become an economic entity that makes its own operating decisions and that is responsible for its own profits and losses, for exercising self-restraint, and for its own development. It is on the leading edge of science and technology, and it combines the military and the civilian in a benign cycle.

In accordance with the basic approach of "developing aerospace, producing more civilian goods, improving returns, and orienting toward the world," the corporation's guiding plan for fulfillment of the above tasks is as follows:

Continuing To Make the Most of Successful Experience in Aerospace Endeavors. Successful experiences in aerospace endeavors during the past 37 years include the following: acting as China's circumstances permit, setting limited goals, emphasizing key points, and proceeding in an orderly way step by step, selectively pursuing the world advanced level of aerospace technology; adhering to independence and keeping the initiative in our own hands, and to self-reliance, taking our own course of development, improving international cooperation, and importing advanced technology; practice of unified and centralized leadership, organizing the entire country for large scale cooperation; practicing systems engineering management in accordance with the laws of development of aerospace technology; adherence to a policy of producing results, producing talented personnel, and producing returns, training up a superb aerospace science and technology corps; making sure to devote close attention simultaneously to the development of material and spiritual civilization, carrying forward the traditional aerospace spirit; adhering to the principles that Premier Zhou formulated of "seriousness and conscientiousness, completeness and meticulousness, steadfastness and reliability, making sure that nothing goes wrong," and adhering to the work style that Comrade Nie Rongzhen advocated of "a serious attitude, strict requirements, and rigorous methods."

Adherence to a Policy of Linking the Military and the Civilian, Peacetime and Wartime, Giving Priority to Military Ordnance, and Using the Civilian To Maintain the Military. While ensuring "priority for military ordnance," civilian aerospace goods are to be developed vigorously, business is to be decontrolled and enlivened, the industrialization of aerospace science and technology is to be accelerated, modernization of national defense and service to the national economy is to be actively pursued, efforts are to be made to open international markets, to orient toward the world, to improve economic returns steadily, and to build an aerospace corps that has continuity.

Adherence to the Emancipation of Thinking, the Intensification of Reform, Expansion of the Opening to the Outside World, and Acceleration of Development. Acceleration of reform and opening to the outside world, and acceleration of development must proceed from realities and conducted realistically. They require both boldness in innovation and a strictly scientific attitude. They require both an emancipation of thinking to strike off the fetters of old concepts, and making sure to do a solid job, emphasizing practical results.

By way of maintaining development momentum, the aerospace science and technology industry has drawn up a development plan for the period between now and 2000, and an Eighth 50-Year Plan. Acting in the spirit of Comrade Xiaoping's remarks during his travels in south China and his statements to the 14th Party Congress on seizing opportunities, emancipating thinking, accelerating reform, and quickening development, the aerospace industry has set four new requirements, namely earliest possible strides ahead in aerospace technology, production of civilian goods at a certain scale, exports to earn foreign exchange, and economic benefits, as well as 10 major specific tasks.

Comrades! The situation we face is as follows: **Daunting tasks, very great difficulties, rare opportunities, and bright prospects.** This means that, on the one hand, the above goals and tasks are an enormous project of unprecedented difficulty and complexity that will not permit the slightest carelessness. Furthermore, external relations pertaining to research and development of military ordnance at the present time require further improvement, and funds are not available. Enterprises and institutions are not earning high returns, and their losses are increasing; results obtained from translating scientific and technical achievements into products and the founding of industries are not great. We are a long way from forming a benign cycle that combines the military and the civilian. Neither does our thinking, work style, and methods fit the developing situation. At the same time, the CPC Central Committee, the State Council, and the Central Military Affairs Commission devote extremely great attention to and show very great concern for the development of aerospace. The whole country is accelerating reform and the opening to the outside world, and both the rapidly developing domestic environment and the present international climate favors us more and more. New systems and new mechanisms will infuse new inspiration and new vitality into aerospace. The old leaders, old experts, and old comrades have laid a good foundation. In addition, people all over the country fully understand and wholeheartedly support the effective efforts of the superb aerospace corps. Chinese aerospace also faces rare development opportunities. There are plentiful prospects for accomplishments.

Most important is the need to work with perseverance for complete fulfillment of the five key tasks for the current year, namely:

1. Inculcation of a strong sense that quality is vital to aerospace, a good job done in improving quality. The reasons for the quality problems that occurred in the research and development of past models must be analyzed step by step, effective actions taken, and a list of items to be inspected preliminary to acceptance drawn up. The technical and material basis for better quality must be built, quality control improved throughout all processes and in every regard. A quality protection system must be established and perfected, and a quality responsibility system must be put in place. Within two to three years, quality should be raised to a new level.

2. Full attention to research and development of models. "Various Measures To Ensure Success in the First Flight Testing of New Models" must be implemented to ensure ensuring completion of the current year first flight tests and large model testing, and to ensure progress in the research and development of key models. Close attention must be paid to technological transformation, to key technological problems, and to pre-research tasks.

3. Fulfillment of plans for readjusting the product mix. All possible must be done to attract foreign investment. Advanced foreign technology and capital must be boldly imported on a broader scale and at a higher level. Foreign trade must be expanded to enable the aerospace industry to develop technically, economically, and effectively. Effective actions must be taken to realize another reversal of losses by one-third in 1993.

4. A good job of intensifying reform throughout the system. The military and the civilian must be separated and consolidated; development of tertiary industries should reach plan requirements, and logistical support work should be socialized and become economically self-sustaining within three to four years. A beginning should be made in critical ways during 1993. The eight measures cited in "Basic Approaches for Intensification of Reform in the Aerospace System, for Widening the Opening to the Outside World, and for Accelerating Development" must be fully implemented. All norms should be included in the Eighth Five-Year Plan and in annual progress plans. They should be broken down for implementation level by level, responsibility assigned to specific units and individuals.

5. A good job of changing functions, simplifying organization, improving work style, and increasing efficiency simultaneous with founding of the corporation. Chinese aerospace must shoulder heavy burdens and travel a long road. Transformation of the system and the mechanism will be a brand new undertaking and a severe test. The corporation must rally its spirit, and it must adopt a new posture and a new work style. It must carry forward the pioneering spirit of Secretary General Jiang Zemin's 64 character call to people throughout the country, persevering in the "emancipation of thinking, the seeking of truth in facts, active exploration, daring to innovate, arduous struggle, pressing forward in the face of difficulties, learning from foreign countries, constantly striving to become stronger, practicing modesty and prudence, guarding against arrogance and rashness, being dedicated heart and soul, keeping in mind the total situation, being hardworking and thrifty, practicing honesty, make vigorous efforts to make the nation prosperous, and contribute selflessly." In particular, energetic efforts must be made to provide education related to aerospace realities in China, and to continue and carry forward the traditional aerospace spirit. A work style of vigor and speed, doing things promptly, not procrastinating, and of decisiveness and fast action must be inculcated. A work style of pioneering and moving ahead, daring to innovate, dissatisfaction with the status quo, and not sticking to convention must be inculcated. A work style of strict

organizational discipline, carrying out of orders, and halting what is forbidden, and a work style of becoming closely involved in activities at the grassroots level and going deep into the realities of life, investigating and studying, and adhering to the seeking of truth in facts must be enforced. New problems must be studied, and new experiences summarized. The character and laws regulating a socialist market economy must be conscientiously studied and mastered. It is necessary to learn how to swim in the ocean of a socialist market economy.

Thanks to the leadership and concern of the CPC Central Committee, the State Council, and the Central Military Affairs Commission, Chinese aerospace endeavors have always received energetic support and cooperation from all industries in the country, all central government ministries and commissions, corporations, the governments of all provinces and municipalities, all military commission headquarters, the National Defense Science and Technology Commission, all service arms and branches, and all military regions. I would like to avail myself of this opportunity to express my heartfelt gratitude to all fraternal departments and units! We firmly believe that in future we will certain receive greater concern and support from you. This is an important guarantee for continued development of aerospace endeavors. I want to thank compatriots from Hong Kong and Macao and overseas Chinese who have always shown concern and vigorous support, and I want to thank international colleagues for their vigorous support and cooperation. In future, the Chinese Aerospace Industry Corporation (the National aerospace Administration) will continue to maintain and expand this kind of sincere cooperation.

Comrades! The current situation is very good. Tasks are heavy; the course of events depends on human effort; prospects are bright, and a crucial period is at hand. It is hoped that the entire industry will increase the number of its cadres and mobilize staff members and workers, unite as one, be of one heart and one mind, understand the situation clearly, seize opportunities, take firm hold and do a solid job, do a job of building the corporation to usher in a new situation in Chinese aerospace science and technology industry and make a greater contribution to the party and the state. Victory will surely belong to China's aerospace men.

SMALL-SCALE ENTERPRISES

Speed Enterprise Development in Hebei Poor Areas

93CE0798A Shijiazhuang HEBEI RIBAO in Chinese 25 Jul 93 p 1

[Article by Zhao Shude (6392 2885 1795) and Zhao Fayong (6392 4099 8673): "Make Township Enterprise Development in Poor Areas an Economic Developmental Breakthrough; Provincial Work Conference Stresses Speeding Up Developing Township Enterprises in Poor Areas"]

[Text] The Three Day Provincial Work Conference on Speeding Up Development of Township Enterprises in Poor Areas ended on July 24 in the city of Zhangjiakou.

Li Bingliang [2621 3521 5328], Vice Secretary of the Provincial Party Committee, and Gu Erxiong [7357 0059 3574], Provincial Vice Governor, both addressed the conference separately. In attendance at the conference were all of the province's vice mayors and vice commissioners with responsibility for township enterprises, the vice chairmen and assistant directors of township enterprise bureaus from 32 poor counties, and people in charge of relevant departments directly under the provincial government, some institutions of higher education and scientific research units. The focus of the conference was on studying to speed up the development of township enterprises in poor areas and plan township enterprise work for the rest of the year. They determined to make development of township enterprises a breakthrough in developing the economies of these poor areas.

Li Bingliang discussed five points concerning the development of township enterprises in poor areas, stressing that this was not just an economic task of operating township enterprises, but should also be treated as a serious political assignment. Most of the poor areas are old liberated areas; if people there cannot prosper, we will have betrayed the revolutionary martyrs who shed their blood and died martyrs' deaths, as well as betrayed the people in those old liberated areas. For comrades from the old liberated areas, we must be progressive in our liberation thought; it is most important to smash the limiting theory that conditions alone decide further development, rid ourselves of "left" binders and the influences of a planned economy, go all out and act boldly and confidently to develop township enterprises. The forces of production are at a lower level in the poor areas, so multiple forms of ownership and operating systems should be implemented. We should eradicate the idea of looking up to and relying too much upon the state, and instead make reliance on the masses the base point of development, making them stronger and more self supporting. Only in this way will there be wider developmental routes, more methods of development, and a faster pace of development. We must overcome the ideas of dealing only with the current situation and inertia, and we must develop the creative spirit of learning to move forward and take risks. Of course, by daring to take risks we do not mean to blindly act recklessly, but we must generate real energy, pursue practical efficiency, and develop in a down-to-earth manner.

Li Bingliang stressed that if township enterprises in poor areas are to continue development, deeper reform and opening are essential. The Central Committee of the party, the State Council, the provincial committee and the provincial government have all along issued a series of policies intended to speed up the development of township enterprises. These policy measures must be implemented by departments at all levels to ensure that "implementation must be to the bottom in depth, to the

sides in width; implementation cannot be blocked or stopped, it must be applied thoroughly and actively." Nothing can be allowed to obstruct the implementation of these measures. Meanwhile, from their individual situation, each locality should work out specific policy measures favorable to their local development. Li Bingliang especially emphasized that under curent circumstances, with the state strengthening and improving macroeconomic regulation and control, we must firmly and unshakably develop township enterprises, and especially accelerate the pace of development in poor areas. He asked that party committees and government at all levels strengthen leadership of township enterprises. After implementation of the leadership system, whereby the cities control the counties, party and government leaders must simultaneously develop both city and county economies. They especially do a good job on township enterprises in order to tightly connect city and county economies, promoting each, and developing them jointly.

In his remarks, Gu Erxiong first of all summed up the developmental situation of the province's township enterprises during the past half year. In the past year, due to efficient leadership, investment, market, and developmental practices by leasers at all levels, township enterprises in the province continued to develop rapidly. The economic indexes for all items showed a rate of increase that was the highest in the same period for township enterprises in the history of our province. Township industry output value increased at an average rate of 76 percent, which was 5 percentage points higher than the average rate for the nation, the first time in which the provincial average was greater than the nation's.

He said that at the same time we assess the situation as good, we must also see clearly that there are problems which exist in the development of township enterprises. Mainly, these are: there is still a considerable gap between us and China's more advanced provinces; the joint-stock system for rural collective enterprises is not developing at a satisfactory pace; there are too few people with the talent to develop a joint-stock system, who are good at finding projects and capital from all kinds of markets; parts of our backward prefectures, cities, and countys are unclear as how to speed up development, and have too few developmental methods and efficient measures. This is especially the case in 32 poor counties where the township enterprise production output is less than 700 yuan per capita, far lower than the provincial per capital figure of 1,260 yuan. If these parts of counties do not speed up township enterprise development, it will effect the growth of township enterprise development throughout the province, and the local people will be unable to escape from poverty and be prosperous. If people in these parts of the areas cannot prosper, it will be difficult to achieve the goal of a relatively well-off live for the people of the province. To resolve these problems, Gu Erxiong believes that the following six key problems must be resolved:

First, put people's problems foremost. The concept of using people must be renewed for poor areas to develop economically. According to Comrade Deng Xiaoping's three "favorable" requirements and what is actually needed for local economic development, we must select talented people who can render outstanding services in working for people, and not stick to one pattern. When selecting "commanding officers," we must select a group of entrepreneurs who understand economics and administration, and are dedicated to helping people in the poor areas to get out of poverty and become affluent. Second, adhere to the principle of being "driven by multiple tires, operating on multiple tracks" to develop multiple economic factors simultaneously, especially the thorough development of the individual and privately owned economies. The economic base in poor areas is thinner and weaker, lacking capital, technology and talented people; if they depend only on developing township collective enterprises to make a breakthrough, it will be very difficult to start and develop, so we must loosen our policy, and encourage thorough development of the individual and privately owned economies. We would persist in development first, regulation second, and absolutely not try to regulate every aspect, in order to prevent a return to the way of bringing things to a premature end. Third, thoroughly develop the family handicraft industry. When a family's handicraft has developed to a certain scale with a certain market, it must find other families to develop associations in order to enlarge the scale of production, developing into township enterprises. Experience has proven this a successful way for poor areas to develop township enterprises. In the poor areas there are many traditional technically skilled craftsmen with great potential for development; if they are organized and led well, there will be greater development. Four, find out all means of organizing labor export. Exporting labor from poor areas cannot only allow the masses to accumulate the income from that labor, it can also cause the people in poor areas to go out from their narrow field of vision of family, village, town, and county, and thereby renew their ideas, liberate their thinking, learn some specialized skills, improve their capabilities, and create the conditions to explore local resources and establish township enterprises. Five, do a good job of construction in township enterprises' industrial zones for helping poor people. With the limited fundamental conditions for traffic, telecommunications, and energy resources, it is unrealistic to establish township industry projects in every location; therefore, we should make the fullest use of the limited fundamental conditions by choosing one or two places where the conditions are better, and designate these areas for supporting poor township enterprise industrial small zones, concentrated into a group of backbone industrial projects as pillar enterprises for all enterprises in the county. Sixth, help people in poor areas to get out of poverty and become prosperous. Prior to the conference, the provincial production office and provincial civil administration department issued a plan for the province's large and medium scale enterprises to lend appropriate assistance to poor towns. The provincial scientific

commission and provincial education commission issued a plan whereby scientific research units, universities and colleges would extend appropriate assistance. The provincial government has gotten the parties together, but the next phase of the work will rely mainly on the counties and enterprises, the scientific research units, and the universities and colleges consulting and studying further the specific steps to take in rendering assistance.

Finally, Gu Erxiong called for the entire province to come to grips with several important tasks over the next five months. First, confirm the position responsibility system and the system of rewards and punishment for leading comrades who are responsible for township enterprise work. Second, set up and perfect a system which encourages enthusiastic township cadres who advance township enterprise work. Third, further develop a joint-stock system for township enterprises. Fourth, inspire the masses to thoroughly develop township enterprises. Fifth, in each township, cultivate more than three talented people capable of implementing a joint-stock system, "understanding people" who know finance, and are capable of using the market to find projects and capital. Sixth, to develop on two hands (the "three border" areas and the poor areas), achieving a breakthrough by focal point (concentrated to develop one or two towns in a poor area).

At the conference, Zhangjiakou municipality and Wanquan county introduced their situation in developing township enterprises, and there were visits to some townhsip enterprises. There were reports and exchanges from each municipality and prefecture on the situation of township enterprise development in each area, and discussion and revision of the provincial government's "On the Decision To Further Accelerate Development of Township Enterprises in Poor Areas."

POPULATION

Tackle Issues of Family Planning Work

93CE0783A Yinchuan NINGXIA RIBAO in Chinese 3 Jul 93 p 3

[Article by Niu Qi (3662 3823), Secretary of Autonomous Region Family Planning Party Organization: "Thoughts on Ningxia's Population Trends and Family Planning"]

[Excerpts] In 1992 Ningxia attained successes seldom seen in recent years of family planning. Overall levels of family planning regionwide were raised further and population birth rates continued to fall. Nevertheless, while affirming our gains, we must soberly recognize issues that cannot be neglected in the family planning work of our region. [passage omitted]

In 1992 the entire region had 970,000 births. There were 430,000 unplanned births, or 44.64 percent. Among the unplanned population, 71.37 percent did not leave enough of an interval. Because of the large population base, the absolute number of births still was high. Likewise, we must take an adequate estimate of "exaggerated" population statistics. Recalling the family planning situation in Ningxia, it can be seen that reliance on powerful administrative measures may lower birth rates in the short term but actual problems have not been fundamentally resolved since there has not been a complete turnaround in the masses' view towards birth. Such birth rates are unstable and once we are lax in our work, population birth rates will soar. At present most places in Ningxia rely on crash jobs and remedies to control birth. We definitely have to work harder to transform this situation gradually. Work differs between areas. Thus the Yuanshan area accounts for 58.8 percent of the entire region with 44 percent of the population. It is one of the poorest spots in China. The family planning base here is poor and it is really hard to control the population. In 1991 the population birth rate of the river area of the region fell to 17.74 percent, which was 1.94 thousandths lower than the national average. In mountainous areas the population birth rate was 27.41 percent, or 7.73 thousandths higher than the nationwide figure. In 1992, family planning rates in some advanced areas reached 99 percent. Particular counties of the area had only a 36 percent rate, a 63 percent difference. This situation seriously affects improvements in overall levels of family planning work regionwide.

At present, leaders in some areas still have not fully realized the urgency of coordinating population, economic, social, resource and environmental development. An erroneous belief that "when the economy rises, population naturally falls" has emerged. Because we have relaxed leadership over population and family planning, the latter lacks vigor and sufficient energy. According to the needs of the "Opinions on further enhancing family planning and seriously controlling population growth" approved and sent on by the autonomous region party committee and government to the autonomous region population and family planning leadership group, in 1993 per capita family planning costs for the entire region should be 2.60 yuan. However in 1992 for some counties in the region the figure was 0.48 yuan and in 1993 the figure shrunk another 10 percent. It is very difficult to do grassroots level work because there are insuffient operating costs. As a result many comrades engaged in such work have changed professions. Some backbone forces have been selected to do economic work, all of which makes the originally unstable family planning forces even more unstable. In line with the continued deepening of reform and opening to the outside world and the gradual development of the socialist market economy, Ningxia's population in flux increases daily. This is beneficial to promoting Ningxia's economic development and enlivening markets, but many problems for family planning work are unavoidable. The vast majority of the circulating population is of marriageable and childbearing age with poor family planning. Control measures cannot keep up with them. This directly affects family planning of the entire region.

Given the aforementioned circumstances, we must adopt forceful measures. [passage omitted]

Paper Analyzes Phenomenon of Abandoned Infants

93CE0783B Hong Kong TA KUNG PAO in Chinese 13 Jul 93 p 7

[Article: "Observations on Abandoning Infants in Guangzhou"]

[Excerpts] In recent years in Guangzhou the phenomenon of abandoning infants has grown increasingly serious. NANFANG RIBAO recently revealed that statistics from the first half of 1993 nearly match those of the entire year of 1992. On 1 June, Children's Day, five abandoned infants were found. There are roughly three reasons for abandoning infants: congenital illnesses, too many female births and illegitimate children. [passage omitted]

A) A two-month old girl who suffered from a congenital enlarged colon, was tossed aside a certain road in the Yuehsiu area.

B) Likewise was found alongside another road in the same area. She was also two months old and is still being examined for abnormalities.

C) A girl with cerebral hypoplasia, was tossed aside a road in the Tung-shan area. Only one year old, her dull eyes were looking piteously skyward.

More than 90 percent of abandoned infants are ill. Many suffer meningitis sequelae, hypoplasia, hydrocephalus, severe retardation, or congenital heart conditions, deformed limbs, or else Mediterranean anemia, chromosome abnormalities, or other inherited diseases. These unfortunate lives were viewed as burdens or encumbrances by their parents. Most are taken to clinic by their parents or relatives. Upon a bad diagnosis, they are abandoned at the hospital door, observation area or upon a sickbed. One day, a young man brought his five-month old son suffering from a common cold to the Guangzhou Children's Hospital "for a check up." Seeing that he suffered from a congenital brain disorder, he was abandoned.

Good prenatal and postpartum care is insufficiently highly regarded in rural areas. It is unpopular. Mother and infant care is weak. Idiots, cripples and deformed children are born because of early marriage and marriage between close relatives. In cities, although good prenatal and postpartum care is becoming popular, many people harm fetuses because they do not know enough about external factors. They do not know that besides heredity, pesticides, noise, air pollution, X rays, sexual diseases, smoking, drugs, urticaria, large cell viruses, and curved protozoa are all important factors that can harm the fetus. In Guangzhou one young drug-addicted couple used drugs during conception and as a result gave birth to an astonishingly skinny "old man spirit." The child vomited and shook unceasingly. They cruelly left the baby on the hospital doorstep just after the doctor examined it and found it deformed. [passage omitted]

Nearly 10 percent of the abandoned infants in Guangzhou each year are normal children. Almost all of them are girls! How obviously ingrained are the stale feudal concepts of "revering males and slighting females" and "respecting males but finding females inferior"! In rural areas in particular, some who blindly seek to have children find all ways and means to abandon them if they turn out female. In the town of Chiaotaiho in Guangzhou, one woman already had four daughters but she became pregnant again in order to have a son. In the end it was another girl. She most offhandedly and cruelly abandoned her!

In the nursery of the obstetrics and gyneacology department at a certain hospital in Guangzhou, a pretty female infant with regular features, rosy white skin and four big plump limbs has no idea that she has been abandoned by the parents who just gave her birth. Just before she was to give birth, her mother, Li so-and-so, contracted gestational appendicitus. She went to the hospital for an operation and shortly thereafter gave birth to a daughter safely and soundly. Both were in fine health postpartum but when Li was discharged from the hospital she failed to go the nursery to retrieve her daughter. She quietly left the premises and did not return. [passage omitted]

Some fates among the abandoned infants are more tragic than others, namely, illegitimate children. As soon as such children are born the vast majority are abandoned because their parents do not take responsibility for marriage but give birth without becoming legal man and wife, plus the fact that illegitimate children have no legal protection, and that unwed mothers love to have face. One day, a 20-something year old young woman about to give birth was moaning alongside the road. When a passerby discovered her he carried her to a certain hospital in Guangzhou where she gave birth to a healthy boy without mishap. Oddly, not only was the boy's "father" never revealed, but the mother abandoned him in the hospital and quietly slipped away. Some unwed mothers do not even go to the hospital to give birth but leisurely have their babies on the roadside and then make a getaway. [passage omitted]

POPULATION

Effective Birth Control by Male Sterilization

93CE0783C Beijing ZHONGGUO RENKOU BAO in Chinese 19 Jul 93 p 1

[Article by Song Qixia (1345 4860 7209): "Sichuan Males Make Great Contribution, Fulfill Responsibility to State, Dispel Wives' Worries"]

[Excerpts] Sichuan, which enjoys the nickname of a "land of plenty" and is China's most populous province, is among the best in terms of family planning. Whether

in terms of population birth rates or the natural increase rate, both are lower than the national average. Population increases have been effectively controlled. Sichuan's portion of China's total population fell from 10.24 percent to 9.17 percent. The aggregate female birth rate fell to 2.1, of which the contribution by Sichuan's menfolk cannot be discounted.

Relevant information and statistics indicate that China accounts for more than 32 million of the more than 62 million instances of male sterilization worldwide. This is approximately one-half of the global male sterilization rate. Sichuan's males account for the largest portion of this figure, approximately 15 million. Constituting one-quarter of the males sterilized in the world, they may be number one in the world. According to statistics, male sterilization accounts for 31 percent of the contraception and birth control measures adopted by Sichuan's husbands and wives of childbearing age. The male-female sterilization ratio is 5:1. The city of Deyang has one of Sichuan's highest sterilization rates. At the end of 1992, there was a total of 282,633 male and female ligations, or 92.8 percent of the husbands and wives of childbearing age with more than two children. Males accounted for 264,781 ligations, 15 times the number of female ligations.

There are three reasons that Sichuan, an inland area of China with old traditions, has astonishing success with male sterilization:

1. While propagating family planning is a joint responsibility and task of both husband and wife, there is more stress on "family planning is the husband's responsibility" by promoting and advertising male sterilization. In Shenfang county, a nationwide red flag family plannning county, 30,828 males were sterilized from 1970 until 1975 when "family planning is the husband's responsibility" was energetically promoted. The natural population increase rate fell from 32 per thousand in 1970 to 6.5 per thousand. From 1978 until now, the excess birth rate has fallen below 0.68 percent, with family planning rates steadily above 99 percent.

2. The lead taken by party cadres in making male sterilization common. Promoting and advocating husband ligation was not smooth sailing in the Sichuan of "male chauvinist" feudal traditional concepts. Besides being fettered by old concepts, people really felt afraid of and worried about ligation techniques. To dispel worries, on the basis of further propagating scientific knowldege, they first motivated leading cadres and party members to undergo the procedure as a personal teaching method to encourage the masses. After former Guanghan County (City) Municipal Committee Secretary Ye Wenzhi [0673 2429 1807] took the lead in male sterilization, more than 90 percent of males with more than two children as well as common party members in Guanghan's counties, towns and villages were sterilized. This caused male sterilization to become commonplace. At the end of 1992, there were 50,309 accumulated instances of male sterilization in the city, or 93.05 percent of total male and female sterilization. Since 1980, family planning rates in the city have surpassed 97 percent. Since 1986, there have been seven straight years with no excess births.

3) Active promotion of advanced scientific techniques to ensure the safety of those sterilized. That Sichuan could have such common advanced male sterilization techniques, thanks should go to the creator of the world reknowned "Mr Li ligation procedure," former director of the Chongqing Family Planning Institute, Professor Li Shunqiang [2621 7311 1730]. He discovered two nonsurgical male sterilization techniques, namely the "vertical clamp and pierce tubal ligation technique" and the "horizontal skin tubal injection adhesion blockage technique" which make the procedure safer, easier and relieves patient fear of surgery, thereby improving the masses' acceptance of male sterilization. From the mid-1980s until now Sichuan has been establishing a good base with a continuous four-level family planning technology service network at the city, county, district and village levels. It deploys specialized technicians trained in male ligation to ensure quality procedures and technical services. [passage omitted]

In 1988 Peng Peiyun [1756 3805 0061], director of the State Family Planning Commission, praised the "particularly good males of Sichuan" at a national family planning service station experience exchange meeting held in Chongqing. [passage omitted]

Difficulties of Urban Population Control

93CE0825A Beijing ZHONGGUO RENKOU BAO in Chinese 26 Jul 93 p 3

[Article by Hu Weigao, director of the Shenzhen Municipal Family Planning Office: "Population Control in Shenzhen City and the City's Policies for Dealing With the Issue"]

[Excerpt] [passage omitted] From 1980 through 1991, the total population increased from 332,900 to 2.3853 million, with nearly 90 percent of the population being nonagricultural; the population density was 1,181 persons per square kilometer. Meanwhile, 300,000-400,000 "three no's" people (no permanent residences, no legitimate jobs, and no valid identification papers) were not counted here. The gross value of industrial and agricultural output increased from 420 million yuan to 27.554 billion yuan, of which 96.4 percent was accounted for by the total value of industrial output.

Shenzhen is an immigrant-type modern open city, and the population is of the dynamic type. The characteristics and difficulties of the family planning work of city are as follows:

1. The total population has grown tremendously, with the growth being mainly mechanical growth; the proportion of permanent residents in the population is small. The total population of the city was 314,100 in 1979, and increased to 2.3853 million by the end of 1991, with

1.6531 million persons being temporary residents. In the 12 years, the total population grow by 7.59 times, representing an average annual growth rate of 63.25 percent. In the period from 1 July 1985 to 1 July 1990 alone, mechanical growth resulted in the population increasing by 1.0572 million which was equal to 63.9 percent of the total municipal population at the time of the fourth census. As there exists such a large transit population which receives birth quotas from the relevant places of origin, our city's family planning work faces many difficulties.

2. The composition of the population is very complex. In accordance with the requirements raised by China's residence registration system, and in view of the needs generated by our city's effort to develop the economy through internal linking and introduction from outside the city, a new multilayered residence registration system has been formed. First, there is a permanent population of 732,200, accounting for 30.7 percent of the total; second, there is a transit population (people in this category are different both from the temporary residents in the hinterland and from the permanent residents, and the system used here is a new residence registration system which can meet the needs of economic activities; those people can stay in the special economic zone, and must have their temporary residence permits checked once a year) of 1.6531 million, accounting for 69.3 percent of the total; and, third, there are approximately 300,000-400,000 "three no's" people (no permanent residences, no legitimate jobs, and no valid identification papers) who mostly live beside "five kinds of places," that is, mountains, villages, rivers, roads, and ponds; as a result, this difficult-to-touch corner of the family planning work is very hard to tackle.

3. A large share of the population consists of people working in the foreign-financed enterprises and individual business operators. During the Seventh Five-Year Plan period, the number of employees of foreign-financed enterprises increased at an average annual rate of 35.71 percent, which was 15 percent and 19.1 percent higher than the rates of increase in the numbers of employees of nation-owned and collectively owned enterprises respectively. In 1990, the increase in the number of employees of foreign-financed enterprises accounted for 81 percent of the increase in the number of employees citywide. Those people are more independent, and it is difficult for the family-planning administrative constraints to affect them; as a result, it becomes difficult to implement family planning and birth control measures.

4. The population's cultural quality is uneven. In the total population, 4,767 out of every 100,000 persons have received college (including technical college) education; this figure is 3,345 higher than the national average, and is just below those for Beijing, Shanghai, and Tianjin, thereby occupying the fourth place. But, the transit population which accounts for two-thirds of the total population mostly comes from rural areas, and is rather low in cultural quality. Only 1,950 out of every 100,000 persons have received college (including technical college) education. Most have not yet basically changed their views on marriage and birth. Thus, it is difficult to control the phenomena of having extra-plan births and secret births.

5. The population is young, and the number of people of child-bearing age is large. The average age of the total population was 27.3 at the time of the third census, and became 25.3 at the time of the fourth census, representing an decrease of 1.83 years. The median age was 21.59. The people who are of marriage age, that is, 15 or older (the marriage age stipulated at the time of the fourth census, but not the legal marriage age), account for 85.33 percent of the total population as determined by the census; in this respect women of child-bearing age account for 39.64 percent of the total population, a percentage which is 15 percentage points higher than the provincial average. Consequently, the birth peak will last longer in Shenzhen. Many of the currently married people are married to foreigners; thus the family planning task is arduous. [passage omitted]

Data: Family Planning Program Arduous

93CE0825B Lanzhou GANSU RIBAO in Chinese 28 Jul 93 p 1

[Report by Ye Hai: "The Situation Regarding Family Planning Is Grave in Our Province"]

[Excerpts] According to the survey results and statistical data provided by the provincial government, the Provincial Family Planning Commission, and the Statistical Bureau, the birth rate and the natural growth rate of the population were persistently high provincewide in the first half of this year. In some regions, the phenomena of early marriage, unregistered marriage, having extra-plan births, and having births as soon as possible were widespread. The province as a whole faces a grave population situation. [passage omitted]

According to analysis, the serious weakening of population control has mainly been caused by the following several things: First, the weakening is related in some way to the fact that some leading cadres and family planning cadres do not have the spirit of doing real, effective work, have failed to be sufficiently guided by the idea of acting in accordance with the law, and are not strictly enforcing the policies. They fear that they would lose votes or offend people, and thus shrink from difficulties, adopting a tolerant and excessively lenient approach. As a result, the phenomena—including having extra-plan births, having several births in violation of the policy regulations, having another birth before the required pause ends, early marriage, unregistered marriage, substituting sterilization for penalty, and the insufficient severity of penalties—exist on a widespread basis. Second, in some localities the work is weak at the township level, and especially at the village level; the real situation is not clearly grasped, and regulatory work and technical services are not up to the requirements. In

addition, in the process of establishing the system of socialist market economy, family planning work is faced with some new issues. For instance, as some regions in financial difficulties lack funds for family planning, family planning cadres are asked to create revenues for themselves. As the development of market economy has accelerated population flow and migration, the phenomenon of population dispersing is increasingly prominent; as a result, it becomes difficult to keep control over the marriage and birth situation. The tendency toward "always focusing on the matter of money" in society has also to some extent adversely affected the stability of the force of family planning cadres.

Measures on Managing Transit Population

93CE0825C Beijing FAZHI RIBAO in Chinese 29 Jul 93 p 1

[Report by staff reporter Jiang De: "How To Manage the Transit Population?—A Report From Jiangsu"]

[Text] As shown by surveys, the transit population, consisting of people who have come from outside Jiangsu Province to work here, is over 5 million, and the resultant public security problems are very prominent. Criminal and public security cases linked to this population account for 20 percent of the provincial total, and for as much as 50-70 percent of the total in such places as Suzhou and Wuxi.

In the face of such a situation, the approach adopted by the public security agencies of Jiangsu Province to dealing with the problems is to adapt to the situation, by carrying out bold exploration in an effort to reform the population management work. The concrete method is to treat the management of the transit population in the same way as the management of the permanent population, and to regain control over the management of the part of population which has slipped out of control, through achieving a clear understanding of the real situation, issuing permits, getting people registered, controlling the battle positions, and promoting comprehensive improvement. This work has played an important role in stabilizing the public security situation and controlling various crimes.

A key link in Jiangsu Province's effort to enhance the management of the transit population is to get to know clearly the real size of the transition population. Presently, public security agencies across Jiangsu, especially in the southern Jiangsu region where the transit population is larger, have established the system of "monthly checking and yearly cleaning-up" on a widespread basis, registering and checking the transit population widely at the beginning of each year so as to get to know the real figures, while issuing temporary residence permits and creating relevant files. Then, there would be monthly checks, so as to grasp the changing situation regarding the transit population. In this way, public security agencies are able not only to know clearly the situation regarding the transit population, but also to break many criminal cases during the checking and registering. Last year alone, 3,145 criminal cases were broken and over 7,000 public security cases were investigated and handled, because of the leads produced by the provincewide effort to enhance the management of the transit population. During the checking and registering this year, the province again produced nearly 2,000 pieces of information serving as clues for solving criminal cases, and exposed over 7,000 law-breakers and criminals. Of those people, over 550 were arrested; nearly 4,000 received public security penalties. Many of those exposed law-breakers and criminals were criminal offenders who had committed serious crimes. For instance, Wuxi City apprehended the murderer Lu Bo who had been a fugitive for more than a year, after committing murder in Chongqing; Changshu City apprehended Zhang Linxian who had been the chief culprit of the theft of over 400,000 yuan's worth of industrial raw materials in Xiaoshan County.

Strengthening the control over battle positions is the second measure used by Jiangsu Province for enhancing the management of the transit population. The Runzhou Branch of the Public Security Bureau of Zhenjiang City has discovered in practice that the large amount of scattered private housing for rent is the main place where the transit population lives. To manage the transit population, it is imperative to effectively control this battle position. Consequently, with the support from the relevant agencies, they instituted the system of housing rental permits for governing the renting of private housing. Under this system, all private housing for rent must satisfy the relevant regulations on housing rental and on public security. Owners must sign public-security responsibility agreements with local police stations in order to get housing rental permits, and are prohibited from renting out housing without permits. At the same time, owners and tenants must apply to the village (or neighborhood) committees or the police stations for temporary residence permits within three days after the renting of the housing. In this way, the situation where the size of the transit population was unclear has been thoroughly changed, with over 90 percent of the transit population having got registered. Not only have many criminals been exposed, but also the work of providing help and education for the transit population has been carried out.

In the process of enhancing the management of the transit population, public security agencies across Jiangsu Province have also paid great attention to relying on all sectors of society in the effort to promote comprehensive improvement in the situation regarding the transit population. Currently, in the southern Jiangsu region where the transit population is concentrated, a transit-population management system, based on a network of transit-population management offices, groups, workers at the village (or neighborhood) committees and employers, has been established; the system of "having employers assume the responsibility" has been used, and the method of "having transit people manage transit

people" is used. For instance, Jiangying City now has a transit population of 140,000, and is expected to have a transit population of 180,000 in the near future; it is difficult for public security agencies alone to manage that population. Therefore, they established 23 transit-population management offices and 126 management groups, with the help from the employers; they have also recruited nearly 1,000 full- and part-time management workers from among the transit population, thereby forming a complete management system. All this has not only stabilized the transit population, but also provided favorable conditions for enhancing the management of the transit population.

FOREIGN TRADE, INVESTMENT

Article Views Policy on Use of Foreign Investment

93CE0650A Beijing GUOJI MAOYI WENTI [INTERNATIONAL TRADE JOURNAL] in Chinese No 5, 30 May 93 pp 33-36, 28

[Article by Qiu Ling (6726 7117): "A Probe of China's Policy on Utilization of Foreign Investment in the 1990's"]

[Text] I. Review of Utilization of Foreign Investment and Economic Development of China in the 1980's

The use of foreign capital by China played a fluctuating role in accelerating economic development in the 1980's. Reviewing and summing up the last 10 years of tortuous road in using foreign capital will help us decide what kind of policy to adopt regarding the use of foreign capital in the 1990's.

Foreign capital's contribution to China's economic development in the 1980's is mainly manifested as: A) acceleration of domestic economic growth; B) make up of the shortage of domestic construction funds; C) import of advanced technology and management experience; D) expansion of labor employment; and 5) increase of domestic commodity supply. The role played by foreign capital in accelerating the growth of the national economy is becoming more and more evident as each day goes by.

However the influx of foreign capital in the 1980's played a rather imbalanced role, timewise, in accelerating China's economic growth. According to an estimate, the relevant flexible value of total agricultural output value and foreign capital inflow was 2.857 during the period between 1982 and 1984 and 1.254 during the period between 1985 and 1989. In other words, in the early 1980's, for each unit of increase in foreign capital inflow, total agricultural output value increased 2.857 unit, while in the latter period, the increase was only 1.254 unit, a decline of 1.603 unit. The role of foreign capital inflow was obvious in economic growth in the early period and it declined sharply in the latter period. The fundamental reason for this is that two contradicting trends existed in the use of foreign capital in China:

Trend No. 1: The stimulating effect of reform and opening up on the function of foreign capital. The 10 years of Cultural Revolution put China's national economy on the brink of a break down. The extreme shortage of funds became the greatest restricting factor in the growth of the national economy. Judged from the angle of marginal utility, it was a period when the marginal utility of capital investment would increase progressively. Because of this, in the early period of reform, along with the implementation of opening up and various preferential policies, the inflow of foreign capital was stimulated and the marginal utility of foreign capital increased rapidly. The economy of scale achieved by combining foreign and domestic funds doubled and redoubled, substantially alleviating the shortage of funds. As a result, the role of foreign capital was very prominent in accelerating economic growth.

Trend No. 2: The restraining effect of deteriorating internal environment on the function of foreign capital. Even in the early 1980's when the inflow of foreign capital played a greater role in accelerating economic growth, the factor of deteriorating internal environment was growing in regard to the use of foreign capital. This was manifested mainly as: A) The "bottle neck" factor increased rapidly. Along with the inflow of foreign capital, the capital shortage problem was alleviated to a certain extent, but the development of coordinating infrastructure such as energy and transportation lagged seriously behind. The incomplete operating mechanism of China's market and the irrational price system of China in turn made these industries, which badly needed to be developed, unattractive to foreign investors, thus causing the contradiction between the use of foreign capital and the direction of industrial development to worsen daily and forming a new line of "bottle necks" in the use of foreign capital to restrict the exercise of "multiplication" function of foreign capital. B) The speed of capital outflow increased. In the late 1980's, the scale of foreign capital absorbed by China gradually increased, but capital outflow (mainly interests, stock dividends, and extradividends paid out on foreign capital) also increased accordingly, and the growth rate of capital outflow was greater than that of capital inflow. Take Fujian Province, which has used a fairly large amount of foreign capital, for instance, capital outflow was $123 million in 1985 and 277 million in 1989. The ratio between the value of capital inflow and outflow rose from 0.32 in 1985 to 0.5 in 1989, showing an increase of 60 percent. The excessive growth of the rate of capital outflow has weakened the bearing capacity of foreign exchange balance and restricted the efficiency of scale of foreign capital. C) Inflation worsened. During the 1984-89 period, strong investment desire triggered by a loss of macroeconomic control gave rise to serious inflation and, to a great extent, restricted the effect of foreign capital.

In sum, these two trends of contradicting nature were both in effect in the 1980's. In the early 1980's, the trend of absorbing foreign capital to stimulate economic growth occupied a dominant position. In the late 1980's, the restraining effect of foreign capital inflow gradually gained ground. The combination of the two trends caused the fluctuating effect in the use of foreign capital in the 1980's.

II. Discussion of Several Issues on the Use of Foreign Capital in China

A. The issue of macroeconomic environment in the use of foreign capital. 1) The amount of demand of foreign capital. To achieve the goal of quadrupling GNP by the end of this century, based on the calculation of constant price of 1980, China must increase investment, especially investment in transportation, energy, and raw material industries. According to the estimates of departments concerned, based on the level of national income provided by the industrial and agricultural production of China, industrial and agricultural departments can make only 56 percent of needed investment by the year of 2000, leaving a gap of 44 percent. Because of this, China's demand for foreign capital will remain great in the 1990's. 2) The amount of availability of foreign capital. Since the 1990's, drastic changes have taken place in the supply and demand relation of international money market and the direction of the flow of investment. Although the trend of development shows that the scale of Hong Kong and Taiwan investment in Mainland China will expand, generally speaking, factors such as the reconstruction of the Gulf region, the merge of East and West Germany, and the dissintegration of the Soviet Union have caused international competition for foreign capital to sharpen, thus limiting the amount of foreign capital available to China. 3) The ability to absorb foreign capital. Currently the major factors affecting China's ability to absorb foreign capital include: a) The make up of foreign capital. Foreign capital used by China consist of mainly two portions: foreign loans and direct investment by foreign investors. Since foreign investors take the risks of commerce and foreign exchange in direct foreign investment, this article will focus on analyzing the issue of capital and interest payment of foreign loans. Current, internationally recognized criteria for measuring debt repayment ability are debt repayment, debt assumption, and foreign debt ratios. Generally speaking, economic growth rate is directly proportional to debt assumption rate and inversely proportional to debt repayment rate. Judged from the experience of various nations in using foreign capital and the analysis of large amount of statistics, the best combination for the use of foreign capital is to have a debt assumption rate that is slightly higher than debt repayment rate within a permissible scope. Although China's debt repayment and assumption rates are both under the international recognized warning line (20 percent), they were close in some years (such as 1986). The proportion and increase speed of debt repayment rate are substantially higher than those of debt assumption rate. This deserves our attention. Foreign debt rate has been fluctuating around 90 percent in recent years, making it hard for exports to repay the debts. Especially during the period of Seventh Five-Year Plan, the average increase rate of foreign debts balance is higher than that of GNP and export foreign exchange earnings, pushing China's foreign debt bearing capacity to the limit. Furthermore, foreign debts are either borrowed and repayed in a unified manner or borrowed in a unified manner and repayed individually (guaranteed by local governments at different levels), and a large part of exports structure and growth is foreign investment. Because of this, even if the increase rate of foriegn debt balance is kept under that of exports, debt repayment still poses a certain degree of problem.

B. The coordinating ability of funds. According to the estimate of the Bank of China in 1986, for each dollar of direct investment, we need to provide 8 to 9 yuan of coordinating funds in renminbi. Due to the downward adjustment of the exchange rate of renminbi and the expansion of the inflow of foreign capital, the demand for coordinating funds has doubled and redoubled in recent years. But the actual amount of coordinating funds in the system of the Bank of China not only did not increase but declined in the corresponding period, creating a serious shortage of coordinating funds. As a result, some foreign debts and foreign exchange brought in by foreign investors have been exchanged into renminbi through renminbi loans secured by foreign exchange and other foreign exchange regulating channels. This has adversely affected China's money market, especially foreign exchange regulating market, and weakened the combining effect of foreign currency and renminbi. In addition, regarding policies on the utilization of foreign capital, problems such as the imbalance between administrative and economic preferential treatments, failure to provide supporting infrastructure such as energy and transportation, and defects in the control system involving foreign nationals, have all adversely affected China's ability to absorb foreign capital.

C. The issue on the use of foreign capital and the direction of foreign economic policies. Generally speaking, under an open condition, the relationship between capital exporting and importing nations is an interdependent and mutually benefiting one. Under the condition of a commodity economy, certain conflicts of interests exist between capital exporting and importing nations, especially between developed and developing nations, and the growing gap in economic development will worsen such conflicts. Because of this, when setting its foreign economic policies, China has to decide whether to adopt a more open policy to deal with international competition or to adopt a stricter policy to protect the domestic market and industry. Regarding the use of foreign capital, this means whether to allow foreign capital to flow into China more freely and to provide more lenient or even favorable conditions or to exercise stricter control and limit on the inflow of foreign capital (especially regarding the demand of capital exporting nations for entering the commodity market of

capital importing nations). Generally speaking, adopting a looser policy on foreign capital is conducive not only to attracting more inflow of foreign capital but also to increasing the result of use and efficiency of management of foreign capital in the long run. Besides, international competition of greater intensity also forces domestic enterprises to increase efficiency. However, in the short run, this policy direction also has certain risks. One is that the balance of international payment may be subject to greater pressure. The other is that cut-throat international competition may adversely affect the development of domestic industries. Adopting a stricter policy on foreign capital in the short run can help protect domestic enterprises and balance international income and expenditures. But in the long run it may be harmful to economic growth because it restricts the inflow of foreign capital. And, it may also cause the quality and efficiency of the national economy to decline because protective policies "spoil" domestic enterprises. Therefore, how to set an appropriate "degree of protection" and "degree of openness" in policy direction in the course of using foreign capital is an important decision to make regarding the overall efficiency of the use of foreign capital in China.

D. The issue of monetary effect of the inflow of foreign capital. It is inevitable that an influx of foreign capital will affect the movement of domestic currency and change the overall supply and demand situation of domestic currency. This effect caused by the inflow of foreign currency is referred to as the monetary effect of foreign capital. It is demonstrated mainly in two areas: 1) The combined effect of foreign and domestic capital. In other words, an influx of foreign capital will inevitably attract a certain amount of domestic capital as supporting funds, thus enlarging to a certain degree demand for domestic money supply. 2) The inducing effect of foreign capital on domestic capital. In other words, through the inflow of foreign capital, we can develop domestic investment capacity, increase the economic returns of domestic capital, and induce more investment opportunities, thus increasing the demand for domestic capital.

Due to the combined and inducing effects of foreign capital, the investment returns of domestic capital will increase generally. The greater the scale of foreign capital import, the more fully technology will spread and the faster the investment return of domestic capital will increase. Increase in the investment return of domestic capital will in turn stimulate domestic demand for currency, causing domestic money supply to increase rapidly. Because of this, when foreign capital is imported continuously, the monetary effect of foreign capital inflow will accumulate as the scale of net import of foreign capital expands. If we do not control it, there is a danger of leading to run-away inflation. In the course of opening up to the outside and importing foreign capital, many developing countries have experienced different degrees of serious inflationary problem. For example, in the second half of 1980's China too witnessed a strong investment desire and a rapidly growing demand for currency, causing repeated loss of control in money supply and leading to serious inflation.

E. The issue of effect of foreign exchange rate and the interest rate of loans on absorbing foreign capital. First of all, judged from the influence of exchange rate on foreign debts, because exchange rate does not change according to the will of lenders and borrowers and it is very sensitive to international political and economic situations, there is a fairly great risk involved and it has a fairly great impact on the capital, interest, and other costs of foreign loans. For instance, in 1986 China lost $3 billion due to the appreciation of Japanese yen. Because of this, conscientiously studying, projecting the trend of exchange rate, and rationalizing the currency mix of foreign debts of China is indeed an important task. Generally speaking, we may adopt the following methods to avoid the risk of exchange rate in foreign debts: a) using the same currency for borrowing, using, and repaying; b) using half soft and half hard currency when borrowing; c) seizing the opportunity to pay back ahead of schedule, if conditions permit, debts in depreciating currencies; and d) keeping the currency mix of foreign debts in line with that of export foreign exchange earnings of China. Second, judged from the influence of interest rates of foreign loans on absorbing foreign capital, interest rates of foreign loans include mainly interest rates of foreign government loans, international monetary organization loans, and international money market. On the basis of mastering the pattern of changes in foreign interest rates, choosing a correct variety of interest rates can help reduce the cost of fund raising and reduce the risk of borrowing. The following measures may be used as reference: 1) Trying to obtain medium- and low-interest loans (mainly loans from foreign governments and international monetary organizations). 2) Choosing the type of interest rate on the basis of changes in the level of interest rates. When signing a contract, if market interest rate is relatively low, we should adopt a fixed interest rate; otherwise, we should go for a floating interest rate. When the difference in interest rates is minimal, we may adopt loans of mixed interest rates, half of each, to avoid risks. 3) Considering both interest and exchange rates. Generally, the interest rate of soft currency is higher than that of hard currency. When we borrow soft currency, we can benefit from such currency depreciating against other foreign currencies, but we have to pay higher interest. When we borrow hard currency, although we will suffer some loss caused by such currency appreciating against other foreign currencies, we pay less interest. Therefore, we should properly balance the pros and the cons. If what we gain from the change in the exchange rate of a soft currency is greater than what we lose in the overpayment of interest, we will be better off borrowing the soft currency; otherwise, we will be better off the other way around.

III. Preliminary Proposals for the Utilization of Foreign Capital by China in the 1990's.

A. Set a proper scale and speed of import of foreign capital according to China's ability to absorb and digest.

In the 1990's import of foreign capital, we should first change our thinking and switch our attention from the amount and speed of absorbing foreign capital to the economic returns of foreign investment and keep an appropriate scale and growth rate of foreign investment according to China's ability to absorb and digest. An initial estimate of the departments concerned shows that in the 1990's, the growth of new, direct foreign investment should be kept under $20 billion, total direct foreign investment, around $40 billion, and foreign debt balance, around $70 billion. Foreign capital should be screened. Namely, we should pay attention not only to the microeconomic returns of foreign-funded projects but also to the macroeconomic returns of society as a whole.

B. Stress the utilization of international capital and vigorously improve the investment environment. We should do a good job mainly in the following improvements: First, policy environment. We should combine economic and administrative preferential treatment and optimize the policy structure. Economic preferential treatment is perceived to be dominant over administrative preferential treatment. But as far as overall results are concerned, the latter dominates over the former. Because of this, currently we badly need to carry out reforms in administrative organs in accordance with the principle of "small government and large scoiety." With regard to foreign capital, we also need to gradually form such links as project consultation, appraisal and evaluation, materials supply, production and management, product marketing, enforcement of preferential policies, and post management so as to provide coordinated, complete and efficient management and quality service. Second, system environment. Because foreign-funded enterprises are accustomed to follow international practice in production and management activities, we need to have a relatively complete market system as a basis. Because of this, we must speed up reforms in the following areas: 1) Reform the management system of key areas for using foreign capital and change the current system of administrative control to a system of operation and management. For instance, if we cannot guarantee the supply of raw materials at state prices, we should allow foreign-funded enterprises to price their products according to market demand, make their own decisions in operation and management, and assume sole responsibility for profits and losses. 2) Speed up the experiment of share-holding system in Chinese enterprises to keep in step with the enterprise system of international standards. 3) Further improve current markets for capital goods, labor, money, human resource, and foreign exchange regulation and develop corresponding markets for property rights and stocks. 4) Deepen reforms in supplies, banking, and foreign trade systems which are closely linked to the import and utilization of foreign capital. Third, the legal environment. We should further improve rules and regulations concerning the management of foreign capital and introduce as soon as possible laws such as the "Law of Corporation," "the Law of Securities," the "Law of Foreign Debt Control," and the "Law of Mortgage." This can standardize domestic economic movements and provide clear legal definition and protection regarding the identity, status, responsibility, right, and interest of foreign-funded enterprises. We may gradually extend national treatment to foreign-funded enterprises while increasing the degree of openness of policies regarding the use of foreign capital and reducing the flexibility of current policies. Fourth, supporting environment. 1) We should raise funds through various channels and increase the coordinating capacity of funds. The Bank of China should tap potential through various channels such as increasing savings deposits and allocate more money for the credit funds of the Bank of China. Other specialized banks should be encouraged to participate in loans for foreign-funded enterprises and support those foreign-funded enterprises which have proved to be profitable. At the same time, we should vigorously apply the method of fund raising through securities. For instance, in areas with more concentrated use of foreign capital, local governments should be allowed to issue government bonds of different length of maturity or securities of floating interest rates. Since the share-holding system is a permanent kind of investment which yields only interest and dividends but does not return capital, those infrastructure projects which require a large amount of investment and yield slow returns may adopt the share-holding system to raise foreign exchange funds overseas. 2) We should make great efforts to improve infrastructure, develop education, and increase the coordinating capacity of infrastructure and human resource for the use of foreign capital.

C. Optimize the direction of foreign investment according to national industrial policies. The direction of foreign investment should be coordinated with the readjustment of China's industrial structure and the long-term development strategy for the national economy. Because of this, we must: 1) Make clear the key areas of foreign capital investment. Since energy, transportation, and other infrastructure require large amounts of investment, yield little profits, and have a long construction cycle, it is unlikely that they will attract large amounts of direct foreign investment. Thus, borrowed foreign capital should be used mainly in these infrastructure departments while direct foreign investment should be focused on machinery, electronics, and other departments which can help expand exports, increase foreign exchange earnings, and substitute for imports so as to increase the overall return of foreign capital. 2) Strengthen macroeconomic control. First of all, we should work out and promulgate as soon as possible new rules and regulations for guiding the direction of foreign investment. Second, we should map out industrial programs and plans to attract foreign capital and include them in the national economic development plan. 3) Readjust relevant policies such as implementing the slanted industrial policy and using economic means such as credit, taxation, and interest rate to guide the direction of foreign investment. We should correct

implement the policy of "exchanging market for technology." Market concession must be conditional. Namely we must insist on the advanced quality of technology and demand that foreign investors provide technology that is really advanced, especially those technologies which cannot be easily imported through other channels. Enterprises producing goods which China needs to import for a long period of time may be allowed to exercise import substitution and enjoy market concession. As for general consumer goods and daily manufactured goods, we should not easily make market concessions.

D. Use foreign capital to induce internal capital accumulation and accelerate the steady growth of economy. The utilization of foreign capital is meant to obtain extra capital to fill the "gap" of domestic capital, but its fundamental objective is to trigger the accumulation of domestic capital. When China chooses the use of foreign capital, an economic development model based on international debts, it should pay attention to using foreign capital to trigger the accumulation of domestic capital. This is of great significance to preventing inflation, accelerating the quantitative growth and qualitative change of economy, and increasing economic power.

Protecting Infant Industries Under GATT

93CE0828A Beijing GUOJI MAOYI in Chinese No 139 15 Jul 93 pp 7-8

[Article by Sun Lujun (1327 7627 6511): "The Protection of China's Infant Industries"]

[Excerpt] [passage omitted] **Exception Clauses in the GATT for Protecting Infant Industries**

The basic goal of the GATT is to reduce and eventually eliminate various types of trade barriers and discriminatory treatment, and realize trade liberalization through unconditional most favored nation [MFN] treatment. The GATT, in addition to including a set of multilateral trade principles and regulations such as the MFN principle, the principle of national treatment, the principal of tariff protection, and general prohibits on quotas, also contains some exception clauses. These include the "exception for the protection of infant industries," which holds that protective measures may be adopted to establish a new industry or to protect an industry that has just been established, or an industry that does not yet possess the ability to compete. However, GATT does not stipulate a clear definition of an "infant industry." It often uses the approach of application, and signatory deliberation and approval to render a decision. Paragraphs 1, 3, and 4 of the GATT's 18th Article, "Government Assistance to Economic Development," clearly stipulate that when an infant industry is established, protective measures are adopted. Paragraph 1 stipulates that the developing countries, "in order to accelerate the establishment of a certain specially designated industry, and raise the general living standards of people," can "amend or revoke certain reductions listed in the reduction allowance table related to the given stipulation, but should report the above described situation to the signatory countries." Paragraph 3 permits a developing country to adopt quantitative restraint measures that are inconsistent with the GATT, "granting government assistance to promote the establishment of particular industries in order to raise the general standard of living of its people." Paragraph 4 permits a country with "an economy in a developing stage, which can only support low living standards," to apply to the signatory countries, and after obtaining permission, to adopt the protectionist measures of Paragraph 3.

It is evident that the GATT does not prohibit the protection of "infant industries," but this protection is of a directed, temporary, and progressively decreasing nature.

China's Choices

To sum up, China, when selecting a future trade protection emphasis, should give full play to the principle of comparative advantage, and in light of the requirements of shifts in the emphasis of future economic development strategy and structural readjustments, should choose to stress protection of those infant industries which will possess a competitive advantage in the future. Looking at China's current situation with regard to industrial development, it is the emerging high and new technology industries such as computers, video tape recorders, automobiles, and machinery and electrical equipment industries, which because they have emerged comparatively late, no matter whether we are speaking about the scope of production and price or whether in terms of the level of technology and the product quality, cannot compete with similar products produced by the developed countries. For this reason, there is a need to fully utilize the GATT's relevant articles and principles and engage in protection for these industries to enable them to mature, expand, and eventually possess the capability to compete internationally. Speaking concretely, it is of prime importance that we properly solve the following multifaceted problems:

First, fully utilize tariffs in conducting macro regulation. For a long period, in order to protect infant industries, China has erected a dual import protection screen using tariff and nontariff barriers. Moreover, China has also relied heavily on nontariff barriers, and created a multisided trade restriction system characterized by direct administrative interference; i.e., planning, licensing, limits on management, foreign exchange controls, import examination and approval, and pricing. Looking at the proportion of the total value of imports covered by nontariff barriers, the import mandatory plan and the guiding plan amount to 30-40 percent, and import licensing accounts for 40 percent; machinery and electrical appliances are subject to a special import examination and approval system, and for 279 machinery and electrical appliances there are import restrictions, covering some 50 percent of all such products imported. This situation is not in keeping with GATT principles. For this reason, at the same time as gradually eliminating

nontariff barriers. China should rationalize and make transparent its nontariff measures.

Second, selective opening of China's domestic market. The real goal of protecting China's infant industries is to establish better benefits, and not to permanently rely on tariff protection to gain benefits. Hence, China should be selective in its protection of infant industries, and the period of protection should also have certain limits. In this way, some infant industries will have to be subject to differing levels of pressure. In facing these pressures and challenges, we will adopt active measures, and gradually these industries will be pushed towards the international market, allowing them to seek existence and pursue development in a market environment. Not only will this affect the development of infant industries, but it will also have the effect of actively promoting them. This has already been proven by practical experience both abroad and at home. For example, since the 1980's, China has imported a sizeable amount of color television product lines and products, but China's household electrical appliance industry has not been destroyed; on the contrary, under foreign competition and pressure, it has developed and expanded even more rapidly.

It is evident that in order to move from the original protection of China's infant industries, we should integrate readjustment of the domestic production structure, selectively opening domestic markets, and introduce competitive mechanisms. For industries that already possess a certain foundation and competitive ability, we should gradually eliminate protections, and at a suitable time move them towards the market so they can seek to exist and develop within a market competitive environment. Specifically speaking, for those labor-intensive industries with comparatively simple products, we must encourage them to move early toward the international market. For capital- intensive or for high-tech or new-tech industries intensive in capital or technology, in keeping with China's industrial policy, we must appropriately free a certain portion of the domestic market. In this manner, not only will China benefit through the attraction of foreign investment and the raising of China's competitive ability in terms of high value-added and high technological content products, but also a large number of those industries after going through a period and process of development and maturation will gradually develop into China's export industries. For this reason, we should rectify internally oriented trade protection policy distortions, and through participation in market competition, obtain vigorous export efficiency.

AGRICULTURE

Sales, Stocks of Agricultural Capital Goods Decline

93CE0068B Beijing NONGMIN RIBAO in Chinese 18 Jun 93 p 1

[Article by NONGMIN RIBAO reporter Zhao Zekun: "Agricultural Capital Goods Departments Sound Alarm"—At a time when market for consumer goods is recovering and flourishing, Market for Agricultural Capital Goods Slumps; and Sales, Stocks of Such Capital Goods Decline]

[Text] The market of urban industrial products and consumer goods flourishes, and particularly the sales of electric appliances and gold jewelry are brisk. However, the market for agricultural capital goods, particularly chemical fertilizer, is extremely sluggish. This apparent symptom which started early this year has deeply worried people in the field of agriculture and in the realm of science and technology. The period from spring farming to summer harvest and sowing is usually the busy season in selling agricultural capital goods. A sluggish market for agricultural capital goods during a busy farming season will certainly affect agricultural production, they said.

A person of authority in the supply of agricultural capital goods told our reporter that during the first four months this year, the supply and marketing cooperatives throughout the country purchased 14.9 percent less chemical fertilizer. Their sales dropped by 12 percent, and their stock fell by 3.5 percent as compared with the same period in 1992. The purchasing of plastic films for farming also declined. The procurement of chemical fertilizer decline by more than 20 percent in Guizhou, Hunan, Shaanxi, Shanxi and Jilin Provinces. Even in Jiangsu Province where agricultural production is usually high, the procurement of chemical fertilizer, insecticide and plastic films is relatively low.

While the sales of agricultural capital goods are sluggish, the departments for plant protection and soil fertility are also faced with a recession. Departments that provide agricultural services are also faced with difficulties. The area with ground covers is on the decrease. According to statistics, there are less areas with ground covers in most of the provinces and autonomous regions as compared with last year. This area is reduced by three million mu or 20 percent in Shandong Province; 73.5 percent in Guangxi, and a total of six million mu in Heilongjiang, Jiangsu, Hubei and Shaanxi plus Shandong and Guangxi. Although the market for agricultural capital goods is sluggish and investments in agriculture are dropping, the price for agricultural capital goods remains high. According to a survey, the price of chemical fertilizer rises by 8 and 9 percent as compared with the same period 1992, that of the most popular ammonium bicarbonate is up by more than 16 percent, and that of urea increases to 1,200 yuan per ton. The price of urea is as high as 1,500 yuan per ton in some localities. Peasants' total investment in chemical fertilizer in Jilin Province has been reduced by 10.1 percent, that in Fujian by 20 percent and that in Hunan Province by 39.6 percent for each mu of grain crops as compared with the same period last year. The nation-wide total investment in chemical fertilizer is expected to drop by at least 10 percent this year. Except in a few provinces and regions where investments in purchasing organic manure

increase, the investments in purchasing chemical fertilizer also drop in most of the provinces and regions. Such investments decline by more than one third in Hubei, Guangdong and other provinces.

In addition to the low economic returns, high production costs and excessively heavy financial burdens on peasants, what are the other factors that plague the market? A person in the service department of agricultural capital goods points out the following:

First, there is no definite state policy on this. Particularly the state plan on the unified distribution of chemical fertilizer has not been made known to the lower levels this year. No decisions have been made as to where the chemical fertilizer to be distributed during the first and second quarters of 1993 will come from. This has affected the regular procurement and sales of chemical fertilizer. Right now, many provinces request the state to announce its plan on agricultural capital goods.

Second, the State Council has already announced the policy of linking grain with cotton, and change the method of supplying materials to the method of refunding peasants in cash the difference between officially set prices and negotiated prices. The state subsidy is included in the purchasing price of grain crops and cotton. Peasants are pleased with this change. However, this year, the state has prepared over three million tons of chemical fertilizer for the implementation of the policy of linking grain crops with cotton. The relevant department believes that the allocation of chemical fertilizer has already become a fact. The form of redemption in linking grain crops with cotton can only be assumed by paying half of the subsidy with chemical fertilizer and the other half in cash. This will inevitably disappoint the peasants.

Third, the market is flooded with fake and inferior agricultural capital goods. According to sample surveys conducted by the Ministry of Agriculture over capital goods on the markets in nine provinces and regions including Sichuan, Jiangsu and Anhui, 59.4 percent of the capital goods are sub-standard. Such inferior goods are manufactured by 339 enterprises in 29 provinces, autonomous regions and municipalities throughout the country. The markets were filled with fake and inferior capital goods, hurting the feelings of the peasants.

Fourth, some areas and departments stop paying entire or partial operation expenses to departments which popularize agri-technics. This has suspended the technical services to peasants. Complaints are loud in Shandong Province where such services were fairly good. A responsible person of the provincial plant protection center said that service technicians for the popularization of agri-technics were not getting paid to a varying degrees, forcing them to change their jobs. Some local senior agronomists become vendors to sell clothes. In the city of Yantai, 130 of the 168 departments for the popularization of agri-technics were not getting paid to varying degrees. As a result, no one goes to the forefront of the agricultural front to popularize agri-technics this year. Even more serious is the fact that after being "weaned," scientists and technicians have to work hard to earn their living. Many scientific research projects are either shelved or given up halfway.

In view of this, both peasants and business persons call on the state to implement the relevant policy as soon as possible, to announce the fiscal plan for the supply of fair-price chemical fertilizer, and to timely make up the supply of fair-price chemical fertilizer in arrears last year. The service network for the popularization of agri-technics must be strengthened, not weakened. The state must take into consideration the actual situation in agricultural production and in the rural area, and work out the necessary policy for the popularization of agri-technics by improving the existing services and developing a new service network in order to raise efficiency in agricultural production. The root cause of the lack of peasants' enthusiasm in farming during the busy farming season is that farmers have little to gain in growing grain. We must adopt effective measures to tackle this major issue, but we must, first of all, implement the policy which we had publicly promised to carry out.

Zhengzhou Private Grain Firms More Competitive

93CE0687E Beijing NONGMIN RIBAO in Chinese 2 Jul 93 p 1

[Article by Zhao Zhongchen: "Zhengzhou Private Grain Firms Engaged in Full Range Operations"]

[Text] To increase their share of the market, the several hundred individual private grain firms which are quite active in grain circulation in Zhengzhou City, Henan, have stepped up their efforts in strengthening grain processing and coordinated with firms in other provinces to engage in full-range operations for purchasing, storing, processing, transporting, marketing and exchanging grain crops.

Zhengzhou is one of China's base cities for marketable grain. Its total annual grain output is nearly 100 million kg. With the decontrol of the grain price and the peasants becoming more market-oriented, the individual private grain firms are no longer satisfied with the simple seasonal business in the past. Over 200 of them have made investments in grain processing and join their efforts to become liability-limited companies in selling grain and edible oil.

These private grain firms have quick turnovers in purchasing and marketing, and issued no "white IOU slips" to peasants. From 8 to 15 June, Liu Minjun's grain firm in Sanlihe purchased 110,000 kg of wheat and paid 70,000 yuan to peasants. On 18 June, it had already processed the first batch of wheat into flour and sold all of it to Shanxi.

By intensifying grain processing and diversifying its varieties, the private grain firms in the city can processed

grain and oil bearing crops into more than 300 varieties such as flour, milled rice, edible oil and fodder. They intensify the processing of the dozen or so varieties of locally produced wheat, millet and peanuts. In the past, they only bought and sold primary grain crops with a small profit margin, and their business is seasonal. They only made a profit of 300 yuan for selling 10,000 jin of wheat. Now by processing 10,000 jin of wheat or soybean and selling processed products, they increase their profit by more than 1,000 and 2,000 yuan respectively. At the same time, they have also turned the bran which is a by-product from flour milling and oil extraction into compound fodder and export the bran cake to foreign countries. Annually they process about an average of 70 million kg of grain crops, and increased the value by more than 10 million yuan.

In order to process a large amount of grain and store grain crops for peasants, the various private grain firms have built and remodeled a large number of granaries. After the decontrol of grain price, many peasants have the mentality of maintaining the value of grain. They instead keep the grain than selling it out. Around summer harvest, the grain firms with the ability to do intensified processing adopt measures such as placing orders for the purchase of grain or giving out prizes to those who store grain in their firms to attract peasants to store grain in their granaries so as to reduce the amount of the circulating funds needed for production. Storing grain in granaries provided by grain firms is a safe way in maintaining the original value of grain. Even if the grain price rises, peasants only need to pay for the processing fee. According to an estimate made by the private Fengqi grain firm on 15 June, about 80 percent of the 300,000 kg wheat in its granaries is being stored for its customers. In average, the amount of grain in storage in each grain firm ranges from 10,000 to 100,000 kg each year. It is convenient for peasants to store their grain in nearby grain firms and regulate the rural grain market in dull or peak seasons.

By mid-June, the private grain firms in Zhengzhou City have already shipped out more than eight million kg of flour and oil-bearing crops to customers in Hubei, Shanxi and northeast China according to contracts signed. Some of the firms also have their own trucks to deliver the processed grain crops to their customers. On their return trip, they will bring back a large amount of soybean, rough rice and sunflower seeds for processing into edible oil and milled rice, and turn their business into "full-range" operations.

Agricultural Machinery Market Shows Mixed Results

Overview of Market

93CE0820A Beijing ZHONGGUO NONGJIHUA BAO in Chinese 24 Jul 93 p 3

[Article by Zhou Zhimin, affiliated with the information department of the China National Agricultural Machinery Corporation: "An Overview of the Agricultural Machinery Market Nationwide During the First Half of This Year"]

[Text] During the first half of this year, agricultural machinery corporations nationwide bought 16.25 billion yuan's worth of goods from outside their system, representing an increase of 25.1 percent over the same period last year, and sold 17.72 billion yuan's worth of goods to customers outside the system, representing an increase of 26.7 percent over the same period last year. By the end of June inventories totaled 5.55 billion yuan, representing an increase of 16.6 percent over the same period last year. Although total purchases and sales increased substantially, the rates of increase were lower than early this year. Two prominent problems in this year's sales of agricultural machinery are to be noted:

1. Total sales have increased, but the amounts of main products sold have declined.

Nationwide, in January through June the total sales of agricultural machinery and the sales of agricultural machinery in the seven major categories increased overall. But in terms of the amount of physical goods sold, of the 125 agricultural-machinery products covered by the report on the commercial circulation of agricultural machinery, 18 products saw declines in the amounts of physical goods sold. Large- and medium-sized, and small tractors, large- and small plowing-harrowing-sowing machinery, combine harvesters, other cultivating and crop protection machinery, and large and small trailers all saw declines of varying degrees, with the biggest decline being one of around 60 percent. The Tieniu 55 tractor, large- and medium-sized tractor-drawn plowing-harrowing-seeding machines, combine harvesters, motorized threshers, and motorized crop-protection machinery all saw declines of over 50 percent. Only such products as the Dongfanghong 802/70, farm-use trucks, farm-use tricycles, motorized animal-husbandry machinery, electric motors, internal-combustion electricity-generating sets, and hand-barrows saw increases. Internal-combustion electricity-generating sets saw the greatest increase, an increase of over 100 percent. The reason was the rather rapid economic growth which resulted in electricity being in increasingly short supply. The phenomenon of growing total sales and declining amounts of major products being sold already occurred in the fourth quarter last year, and is even more prominent this year. According to relevant officials of the State Statistical Bureau, this problem is prominent not only in the agricultural machinery system but also in the production means sector as a whole. This phenomenon has been caused mainly by price factors. This year, with the rapid growth of the national economy, inflation has been on the rise, and prices of all kinds of materials are rising, with the general price level for means of production rising even more substantially. Because of the pulling effects of the increases in prices of raw and other materials, prices of agricultural machinery products have also increased repeatedly. The price of a small four-wheel tractor

increased every other month—in January, March, and May; the price has risen from over 5,000 yuan early this year to 7,000 yuan. The price of a large tractor has increased by 2,000 yuan at least, with the maximum increase being nearly 10,000 yuan. According to a survey, the situation regarding increases in prices of agricultural machinery on the agricultural machinery market in Shandong is as follows: 30 percent in the case of electric motors; 20 percent in the case of other power-related machinery; 15 percent in the case of tractors; and 5 percent in the case of parts, with prices of some parts such as cylinders increasing by around 10 percent. While the producer prices of various agricultural machinery products are increasing on an overall basis, the business price policies of agricultural machinery corporations have also become policies of less price control or price decontrol. The control over floating prices, management fees, and price differentials between batches has been loosened. The prices of machinery and electric appliances for general industrial and agricultural uses and of small products each worth less than 30 yuan have been decontrolled. Thus, on the one hand factories are increasing the producer prices, and on the other hand corporations are increasing markups, resulting in a situation where although the amount of agricultural machinery products sold in terms of physical goods has decreased, the total value has increased substantially. This has been a major feature of the agricultural machinery market this year.

2. The market has seen large fluctuations since beginning of the second quarter.

During the first quarter this year, except for a few provinces where total sales declined, the nationwide situation was one of brisk sales. But, since early April the agricultural machinery market has seen large fluctuations. The Dongfanghong 802/70 bulldozer has been a case of fast changes, going from being in short supply to being in an ordinary nationwide marketing situation or even slow sales.

Nationwide, agricultural machinery sales increased by 35 percent in the first quarter; 23 percent in April; 28.2 percent in May; and 20.5 percent in June. With respect to situations in various provinces and municipalities, nationwide, six provinces saw declines in sales in March; 10 provinces in April; and eight provinces in May. As should be noted, the provinces involved here were mostly the provinces which had registered the largest sales in the previous years. For instance, in May, Shandong saw a decline of 19.7 percent; Henan saw a decline of 30.6 percent; Jiangsu saw a decline of 0.8 percent; and Hebei saw a decline of 2.5 percent. The northwestern region had more provinces which saw declines. Among the provinces which saw increases, the three municipalities under direct central-government jurisdiction and the coastal open provinces still saw increases much larger than other provinces. This phenomenon was even more prominent early this year. In May, Beijing saw an increase of 39.2 percent over the same period last year; Tianjin saw an increase of 22.4 percent; Shanghai saw an increase of 54.1 percent; Zhejiang saw an increase of 73.9 percent; Fujian saw an increase of 89.1 percent; Guangdong saw an increase of 63.2 percent; Guangxi saw an increase of 56.9 percent; and Hainan saw an increase of 223.1 percent. Early this year most of those provinces each saw an increase of over 100 percent. The other provinces which saw large increases were: Shanxi which saw an increase of 48.6 percent; Liaoning which saw an increase of 53.9 percent; Sichuan which saw an increase of 56.2 percent; and Guizhou which saw an increase of 78.3 percent.

The large fluctuations on the agricultural machinery market nationwide since early April has also been caused by the impact of the state's economic policies, and especially the impact of the financial situation. The shortage of purchasing funds in the various localities has suppressed demand. In the first quarter, the Agricultural Bank issued agricultural loans totalling 59.5 billion yuan cumulatively, representing an increase of 10.8 billion yuan, or 21 percent, over the same period last year. According to estimates based on experience over the past decade, generally around 6 yuan out of every 100 yuan in agricultural loans is spend on agricultural machinery. That is, the agricultural loans totalling nearly 60 billion yuan issued in the first quarter provided nearly 3.6 billion yuan for purchasing agricultural machinery, accounting for 45 percent of the agricultural machinery sales in the first quarter. Rapid economic growth stimulated demand for agricultural machinery, while agricultural loans provided fund guarantees. This was the main reason for the increase in agricultural machinery sales in the first quarter. But since March, funds have increasingly been in short supply nationwide. Since the start of the second quarter, savings deposits have also increased markedly, resulting in even greater shortages of funds in various localities. China's peasants are not rich. According to statistics, in 1989-1991 net rural per capita income increased by only 0.7 percent on average. Although there was an increase of 5.9 percent in 1992, the amount was still only 784 yuan. Therefore, much of the funds for purchasing agricultural machinery has to come from bank loans and to depend on the state's preferential policies. Currently, as funds are in acute shortage, the large potential demand for agricultural machinery cannot be actualized because of the limited purchasing power.

Although the agricultural machinery market saw some fluctuations in the second quarter, with the total sales of agricultural machinery increasing at a lower rate and the sales of most major products declining substantially, from an overall perspective the agricultural machinery market will expand with the continued rapid macroeconomic growth in China. Nationwide agricultural machinery sales for the whole year are expected to grow by around 10 percent. But the imbalances between the provinces and between the regions will markedly increase. This is a complex, changing market situation,

happening for the first time, where entities in the agricultural machinery corporation system each "demonstrate their unique skills" under the system of socialist market economy.

Production, Sales Declined

93CE0820B Beijing ZHONGGUO NONGJIHUA BAO in Chinese 24 Jul 93 p 1

[Report by Liu Jiye and Zhang Ailian: "The Agricultural Machinery Industry Is In a Situation of Low Tides Again—The Output of Seven of the 11 Major Agricultural-Machinery Products Declined in the First Half of the Year, With the Total Value of Output Increasing at a Much Lower Rate"]

[Text] The production and sales of major agricultural-machinery products have declined. On the market, business is not brisk during the brisk period, while business is very slow during the slow period. All this shows that the agricultural machinery industry has entered a period of low tides.

According to the statistics of the Engineering and Agricultural Machinery Department of the Machinery Ministry (see page 3 for more detailed information), the total value of output of the agricultural machinery industry for the first half of the year increased by 14.25 percent over the same period last year (calculated on the basis of constant 1990 prices). However, of the 11 major agricultural-machinery products covered by the statistics, seven products saw declines over the same period last year. In this regard, tractor-drawn harvesting-drying machinery saw declines of 54.35 percent and 51.12 percent respectively. Combine harvesters saw a decline of 44.24 percent; small tractors saw a decline of 41.21 percent; large farm-use trailers saw a decline of 38.22 percent; tractors saw a decline of 5.52 percent; and farm-use pumps saw a decline of 1.29 percent. But farm-use trucks and internal-combustion electricity-generating sets saw increases of 91.2 percent and 60.59 percent respectively over the same period last year.

According to the agencies in charge, the situation regarding the agricultural machinery industry is very serious. The problem has the following main aspects:

Although the total value of output of the agricultural machinery industry has increased, the rate of increase has fallen greatly. In the first half of the year the total value of output of the agricultural machinery industry reached 25.81 billion yuan, representing 57.6 percent of the planned target amount for the year and an increase of 14.3 percent over the same period last year. Compared with the increase of 25.3 percent for the first half of last year, the rate of increase fell by 11 percentage points. Compared with the average increase of 33.7 percent for the machinery industry in the first half of this year, the rate of increase was 19.4 percentage points lower. The rate of increase was thus the lowest among the nine main industries of which the ministry is in charge, and is expected to further fall continually.

The market for agricultural machinery products is weak, and the production and sales have declined substantially. Some enterprises are in a state of semisuspension of production. Agricultural machinery products mostly sold well last year, but are mostly in slow sales this year. In January-May this year, of the 25 products covered by the statistics in the monthly sales reports of the China National Agricultural Machinery Corporation, 17 products saw declines. In this regard, the sales of tractors, small tractors, tractor-drawn farm implements, and combine harvesters fell by 11.7 percent, 33.5 percent, 55.4 percent, and 52.7 percent respectively. The large number of products which saw declines and the high rates of declines were unprecedented. The industries such as those producing small tractors, tractor-drawn farm implements, and combine harvesters are in the greatest difficulties. Some key enterprises are in very difficult situations. In the Shijiazhuang Tractor Plant, the output of small four-wheel tractors fell by 46.8 percent over the same period last year; the Siping Combine Harvester Plant, which produces large combine cereal harvesters, produced only 160 such harvesters (689 in the same period last year); in May-June the Changzhou Tractor Plant produced, on average, 2,000 walking tractors monthly, while it has the capacity to produce 8,000 walking tractors monthly. The Dongfanghong 802 caterpillar tractor and the Dongfanghong 70 bulldozer which have always in high demand have turned from being in short supply to selling slowly since May, and the No. 1 Tractor Plant already had an inventory of 1,032 of those machines by the end of June.

There is a serious shortage of circulating funds, and the problem of triangle debts has not been alleviated. As a result enterprises have difficulty continuing production. According to statistics on seven backbone enterprises, including the Beijing Internal-Combustion Engine Plant, Tianjin Tractor Plant, and Changchun Tractor Plant, by the end of June those enterprises had accumulated debts totalling 701 million yuan, while others owed those enterprises 833 million yuan; the two figures represented increases of 12.3 percent and 15.6 percent respectively over the same period last year. As enterprises' circulating funds do not circulate, normal production cannot be carried out.

The prices of plan-covered steel products used for making agricultural machinery all became market prices at the beginning of this year; agricultural machinery enterprises no longer enjoy preferential prices. The huge increases in prices of steel products have led to substantial increases in the costs of agricultural machinery products. As a result more enterprises are incurring losses, and enterprises have difficulty surviving. According to information provided by people at the localities, the price of pig iron has risen from 1,000 yuan per tonne last year to 1,800-2,000 yuan per tonne; the price of rolled steel has risen from 1,800 yuan per tonne last year to 4,200 yuan per ton; and the price of steel sheets has risen from 2,000 yuan per tonne last year to 4,500 yuan per tonne. In addition, the prices of some

parts such as tires have also risen. As a result some products which generated small profits or just enough returns to cover costs have to be sold on a loss-making basis. For instance, the Shanghai III combine harvester, produced by the Nantong Agricultural Machinery Plant, was sold at the price of 12,800 yuan per harvester last year. This year, because of the increases in prices of materials, net cost per harvester has increased by 3,675 yuan, with the per harvester cost reaching 16,475 yuan. Although the price of the product has risen to 13,500 yuan per harvester, each harvester would still make a loss of 2,975 yuan. The losses are expected to total over 2 million yuan this year.

This year the production and sales of the agricultural machinery industry have declined substantially; however, except for a few products such as small tractors of which the supply exceeds the demand, state-owned farms and rural users have demand for all those products such as tractors, combine harvesters, and tractor-drawn farm implements, but just do not have the money to buy those products. This situation has been caused by the decline in the purchasing power relating to agricultural machinery. Such purchasing power has declined because the white slips used for purchasing grain last year have not yet all been redeemed, and because agricultural loans have not been provided since the beginning of the second quarter, while the investment direction has changed (agricultural loans have been diverted to township enterprises, real estate development, and other things). Some provinces and municipalities have begun to restrict wheel tractors' use of highways. In some localities, farm machinery households have to deal with high maintenance costs (for instance, in Henan Province eight agencies would charge fees on a small four-wheel tractor, with the fees totalling as much as 4,200 yuan); this situation has adversely affected the peasants' enthusiasm for buying farm machinery. The large combine harvesters imported through frontier trade on a barter basis have also had disruptive impact on the domestic market. From an overall perspective, the declines in production and sales of agricultural machinery this year have been caused by the general climate. The rural areas have demand for agricultural machinery; the key problem is a lack of funds. It would be difficult to resolve the problems facing the agricultural machinery industry and the issue of declining rural purchasing power relating to agricultural machinery without the support from the state and various sectors of society.

Article Urges Improved Security in Rural Areas

93CE0688A Beijing NONGMIN RIBAO in Chinese 22 Jun 93 p 2

[Article by Tang Jiahou: "Some NPC Deputies Have Said: Peasants Are Pleading for Improvement in Social Security"]

[Text] A "Great, Prosperous Era" Must Be 'Peaceful'; We Must Strike at Criminals Sternly and Ruthlessly; the Peasants Want To Live and Work in Peace; the State Wants Stability, Prosperity

From rows of new farmhouses in the open country to urban government organs and enterprises, from gatherings of families and friends to passengers on trains, ships and airplanes, and from street corners to the NPC conference hall, the issue of public security in society has always been the focus of the people's conversation.

This is a topic which will affect stability of the state and the people's lives and properties. It is natural that such a topic should be brought up at the NPC conference which embodies the will of the people of all nationalities throughout the country. In recent years, there have been more proposals for legislation and law enforcement in this connection, accounting for a large percentage of the total number of motions made at the NPC. At the Fifth Session of the Seventh National People's Congress held in 1992, there were more than 160 motions in this connection, about one-third of the total number of motions put forward at the session. There were even more motions in this connection at this year's First Session of the Eighth National People's Congress, and their percentage in the total number of motions is even higher. For several years, comprehensive measures have been taken to improve public security with remarkable results, and they have played a significant role in bringing about social and political stability. However, with the deepening of reform, the vigorous development of market economy in rural areas and the increasing flow of population and money, there are public security problems in some localities. In some places there are serious security problems of which peasants complain most. Bandits ride amuck along railroads and highways, and the number of thieves, robbers and kidnappers is on the increase. Children and women are often abducted and sold. Drug addicts and peddlers abound. Gambling and the use of feudal superstition to deceive people are becoming more and more popular. Gangsters with underworld background are especially vicious. They hire killers to commit shocking crimes. Therefore, a large number of peasants lack a sense of security. Talking about the relation between public security and well-to-do peasants, Li Rongjing, a peasant in Fuyang Prefecture, Anhui Province, who becomes wealthy by raising milk cows, said with a worried look: "Right now I dare not raise milk cows. The main reason is insecurity. I have to send milk to the city early in the morning. Our deliveryman is often held up on the way to the city. After I have made some money, some one came to my house with a knife demanding money. My family is not the only one. Similar incidents also happened in neighboring villages. There was another group of people driving a car to our village. They blatantly broke into people's houses and ran away in their car after seizing money and valuables. Peasants become wealthy by working hard. Some people want to 'punish' the wealthy. This is our headache. Although the police arrested them, they were

soon released. They have become even more vicious. Some of them have taken retaliatory measures. Who dares to offend them? Peasants are unhappy about this situation. They believe that the existing laws are useless in dealing with evildoers. On the contrary, good people are afraid of bad people. We earnestly hope that laws will be made stricter and criminals will be punished even more severely. If we punish them slightly, we will enjoy little peace. If we punish them severely, we will enjoy profound peace. If we keep on hitting them for a long time, we will enjoy enduring peace. Only by allowing peasants to live and work in peace can a nation enjoy prosperity." Although this peasant's strong appeal is somewhat biased and wrathful, it truly reflects the worries of the broad masses of peasants and their yearning for a "great, prosperous era in peace." It also shows that now is the time to adopt radical measures to improve public security in rural areas.

Law Enforcement Is Aimed at Defending Authoritativeness and Dignity of Law, Not A Bargaining Tool To Trade Power and Money for Better Human Relations

In order to effectively reduce the crime rate and continuously improve public security, the National People's Congress has accelerated the legislative procedure. During the five years of the Seventh National People's Congress, there were 59 laws enacted. Although many laws have been enacted, it is difficult to strictly enforce them. In some localities, "criminals are not strictly dealt with and sometimes they pretend to be severely punished." Rural grass-roots organizations are busy "opening their windows" and paying attention to developing the economy, while ignoring "swatting flies" and arresting criminals. Some networks for crime prevention by the masses are slack. Public security and procuratorial organs and people's courts are fighting in isolation. Most law enforcement personnel are new recruits. Their standards in law enforcement are not so high. They are not doing their best in taking strong measures against criminals. What the masses resent most is the fact that some of the law enforcement departments do not act according to law, and they substitute law with penalties. Some departments even link law enforcement with economic interests and turn the sacred palace of defending authoritativeness and dignity of law into an arena of rivalry between money and human relations. Some NPC members from Guizhou said that a tendency exists in the society right now. Lawbreakers are not afraid of the law. They are afraid of man. In some localities, going to court becomes "a rivalry for better human relations." Old peasants who have neither money nor human relations have no idea how to enter a lawsuit. Nor do they have the money to sue anyone. Even those who want to report a crime must pay fees and provide transportation. It is true that "those who have no money do not come in, even if they have justice on their side." As long as money is used as a bribery for the improvement of human relationships, those who should be placed under arrest are not seized, while those who are arrested may be released. Even penalties can be reduced. More shocking is the fact that police cadres set free criminals sentenced to death after receiving bribes. Two NPC deputies from Hunan and Heilongjiang said that peasants in their provinces vehemently complained against the local law enforcement departments of some localities. A handful of law enforcement officials have violated laws themselves by taking bribes and bending the law. They even "commute death sentences, or give the death penalty to criminals already sentenced to a fixed-term imprisonment."

Public security and procuratorial organs and people's courts are the fulcrum. If this balance is slightly out of alignment, the foundation of "all persons being equal before the law" will crumble, and the mansion of people's faith in legal affairs will tilt. Nearly 80 percent of the letters people send in and the complaints they make when they call on the standing committee of a prefectural level people's congress are against unjust law enforcement by public security and procuratorial organs and people's courts. Another incident which aroused national attention was when, in order to shield his own son, Public Security Bureau Director Ning Haide in Linyi County, Shanxi Province, bent the law by putting a vegetable vendor and his son in jail. Later one of them was killed and the other wounded by fellow prisoners. This incident stirred up public indignation. XINHUA carried a news item on 16 May reporting that Ning Haide was sentenced to three-year imprisonment. XINHUA also pointed out: "In order to draw lessons from this incident, the Shanxi Provincial Public Security Bureau issued a circular calling for efforts to consolidate the law enforcement departments." To help leading law enforcement cadres raise their standards and improve their quality in handling cases is an urgent task of the law enforcement departments. It is also the fundamental measure in continuously improving public security. In light of the local situation in law enforcement, Lin Ruo, chairman of the standing committee of the Guangdong Provincial People's Congress said: "In the past, we often blamed ordinary people for knowing nothing about the law. Actually some law enforcement departments have not acted in accordance with the Constitution or the law. I believe that cadres at all levels, particularly middle and high ranking cadres, need to broaden their knowledge on law and strengthen their legal concepts."

Shorten Period of "Labor Pains" During Transition Period from "Rule by Man" to "Rule by Law"; Accelerate the Development of Democracy and the Legal System; Strengthen Check-Ups and Supervision Over Law Enforcement

After Qiao Shi was elected as the chairman of the Eighth NPC Standing Committee, he made his first public speech on 28 March this year on the situation which prevails in some localities and departments whereby laws are not observed; their enforcement is not strict; laws are substituted by words, and power is used to defy laws. He emphatically pointed out: The National People's Congress must strengthen check-ups and supervision over law enforcement. This is an important measure in strengthening socialist democracy and running the

country according to law. Some law enforcement personnel said with deep feelings: Chairman Qiao Shi came out with what is on our minds. Right now, laws are difficult to enforce, and it is hard to enforce laws strictly. The use of power to replace laws is creating difficulties. Yuan Fanglie, former president of a certain provincial people's higher court, said: "Prosecution was dropped in 43 percent of the criminal cases and original judgement confirmed in 57 percent of the criminal cases in our province. The high percentage of cases whereby charges were dropped is mainly because some leaders or leading organs used their personal messages to replace laws and their authority to defy laws. They create barriers by all means to obstruct justice, and make things difficult for the law enforcement department in enforcing the law. Once, a county-level court was handling a case. The county magistrate was displeased with the way the case was handled. He then reduced funding to the court on the pretext of insufficient county administrative funds so that the court was unable to handle the case." Yuan's speech reminds people of the debates on the criterion of truth years ago. Warm discussions have been earnestly carried out in various cities throughout the country on the issue of "whether a county CPC committee is greater than the Constitution." In essence, this is an issue of "whether one's authority is above the law." These discussions help raise people's awareness in legal affairs and open up a new prospect in the realm of ideology for China to transit from "rule by man" to "rule by law" and take the path of ruling the country in accordance with law. However, the influence of "rule by man" has been deep-rooted in China for thousands of years. Exposed to the malady of "rule by man," some leaders or leading organs exercise their leadership in a patriarchal way by using their own words as laws. It is difficult to get rid of their deep-rooted habits. In some localities, cases are not handled on the basis of facts and laws. They are handled on the basis of one's power or a certain leader's view. On another occasion, the evidence is complete and reliable in a case. However, "a person of higher authority sends in a slip of paper. The prosecutor at the lower level has no choice but leave the case unsettled." This is equivalent to public security and procuratorial organs and people's courts issuing IOUs to ordinary people who engage in lawsuits, said peasants. This is a sign of the "pain of transition" from "rule by man" to "rule by law." Pain over a short period of time is better than pain over a long period of time, many NPC deputies have said. They pointed out that peasants and basic-level cadres call for efforts to accelerate the development of democracy and the legal system and shorten the aforementioned transitional period. They also said that efforts must be made to increase the power of the people's congresses at all levels and strengthen check-up and supervision over law enforcement departments. We must change the practice of doing a crash job, developing movements or handling cases perfunctorily. It is essential to combat crimes on a regular basis and develop a system to improve public security. We must regard the task of continuously improving public security as an important criterion to evaluate the leading cadres at all levels in rural areas, and "veto any recommendation for a cadre's promotion" if he or she is involved in any wrongdoing in defying the law. Leading cadres must not only help people become rich during their tenures and develop material civilization, but also "ensure unity and social stability" and promote spiritual civilization. Only by pushing both spiritual and material civilization to a new height, will it be possible for China to enjoy a long period of order and prosperity.

Yunnan Extends 2.555 Billion Yuan Credit

93CE0837A Kunming YUNNAN JINGJI BAO in Chinese 26 Jul 93 p 1

[Report by Wang Zuzhe: "Our Province Issues 2.555 Billion Yuan in Agricultural Loans—To Support the Development of Agricultural Production"]

[Text] By the end of June, agricultural banks and rural credit cooperatives across our province had, cumulatively, issued 2.555 billion yuan in agricultural loans, representing an increase of 734 million yuan over the same period last year, thereby forcefully promoting the production of grain and the major cash crops.

This year the agriculture-supporting work of the rural financial institutions of our province has been characterized by quick actions and concrete measures. At the beginning of the year, the Provincial Agricultural Bank proposed six measures on continuing to do a good job of supporting agriculture, demanding that agricultural banks and credit cooperatives provincewide persist in regarding agriculture as the basis and increase agricultural input. The first was to give support to state-owned farms, collectives, and farm households at the same time. In January-June 1.566 billion yuan in loans was given to farm households, representing an increase of 34 percent over the same period last year; 237 million yuan and 329 million yuan were given to state farms and agricultural collectives respectively, representing increases of 15.6 percent and 254 percent respectively over the same period last year. The second was to give focused support to small-scale construction of farmland irrigation facilities and the application, and spreading the use of, agricultural technologies, activities which were low in cost, while generating quick returns. The third was to support the rural materials organizations in their effort to prepare supplies of agricultural materials. The province as a whole has issued 528 million yuan in agricultural material loans, representing an increase of 21 percent over the same period last year. The fourth was to actively raise funds, and to issue "two completes" loans. Over 1.4 billion yuan in loans has been issued to state-owned commerce enterprises to be used for purchasing agricultural and side-line products. And, 50.47 million yuan in loans has been issued for the purpose of paying earnest money relating to grain purchases, and the total amount of loans issued for the purpose of paying earnest money relating to grain purchases is the largest in recent years. The fifth was to issue 1.416 billion yuan in loans to township enterprises, representing an increase of 174

percent over the same period last year, thereby giving forceful support and impetus to the healthy development of township enterprises provincewide.

Sichuan Agricultural Purchasing Proceeds

93CE0837B Chengdu SICHUAN JINGJI BAO in Chinese 12 Aug 93 p 1

[Report: "Not One Fen's Worth of White Slips' Were Given to Peasants—The Small Spring Purchasing of Agricultural and Side-Line Products Has Been Finished Completely Across Our Province"]

[Text] By the end of July, our province had secured purchasing funds totalling 3.5 billion yuan, and purchased 1.699 billion kg of grain, 371 million kg of oil, 550,000 dan of silkworm cocoons, and 4.76 million pigs. Thus, the small spring purchasing of agricultural and side-line products was finished completely. During the entire purchasing process, our province did not give peasants a fen's worth of white slips.

"Never pay peasants with white slips" is the requirement on, and goal of, this year's work of purchasing agricultural and side-line products proposed by the CPC Central Committee and the State Council. Thus, the CPC Provincial Committee and the provincial government paid great attention to this issue, making refraining from paying peasants with white slips an important criterion for evaluating the performance of governments at various levels and the relevant organizations. The systems of executive responsibility and "two-direction goals" responsibility were introduced; that is, when problems of paying with white slips occur because of a lack of funds, governments at various levels and "horizontal" financial and purchasing organizations as well as banks will implement plans through all the layers, and conduct evaluation under the goal responsibility system. The Provincial People's Bank took the initiative in serving as a good advisor to the government, promoting the securing of funds for all sectors; the specialized banks and the relevant purchasing organizations cooperated closely, thereby providing a solid monetary foundation for refraining from paying with white slips when making purchases. The CPC Provincial Committee and the provincial government made vigorous efforts to supervise and examine the securing and using of funds, organized four task forces headed by the deputy secretary, vice governor, director of the provincial financial office, and the president of the Provincial People's Bank. The task forces went to key regions to supervise and examine the actual securing and using of purchase funds, and helped resolving practical problems, thereby ensuring the achievement of the hard-pursued goal of refraining from paying the peasants with "white slips" across the province.

Update on Guangxi Grain Sector

93CE0837C Nanning GUANGXI RIBAO in Chinese 28 Jul 93 p 1

[Article by staff reporter Pan Dingjian: "Summer Grain Had an Encouraging Beginning, and the Losses Were Caused by Disasters; Fall Grain Is Under Heavy Pressure, With the Key Being To Work Hard"]

[Text] After great heat, the busy summer harvest period has started in our region. According to reports from the localities, the total output of summer grain is expected to be the same as, or less than, the same period last year when grain output increased. In this way, the completion of the task of increasing grain output by 110 million kg this year under our region's plan will have to depend on the production of autumn grain.

According to the Agriculture Department, in our region the production of early-crop grain had a good beginning: the sown acreage for grain was 25.02 million mu. In regard to the sown acreage, hybrid rice accounted for 71.5 percent of early rice, representing only a decrease of 160,000 mu from the same period last year, and thus the situation was basically stable. Rice shoots for 80 percent of the early rice were transplanted a few days after Clear and Bright; field management was carried out in a timely way; disease- and insect-infestation was under control, producing no serious harms; and the crops grew in an encouraging way. The sown acreage for spring maize increased by 360,000 mu over the same period last year. Hybrid varieties also saw an increase of 122,000 mu. The output of spring maize is expected to increase by 110 million kg this year regionwide. This year the main problem in the production of summer grain is that in June-July most places in our region saw heavy rains successively, and that some places saw torrential rains and flood, suffering serious disasters. Regionwide, 6.6112 million mu of agricultural crops were flooded; in this regard, there will be no grain harvest from 453,000 mu of land. Qinzhou and Guilin prefectures and Guilin city have suffered very heavy losses, with the combined output being expected to decrease by over 150 million kg. Hechi prefecture originally expected to increase its output of summer grain by 60 million kg, but such output is no longer possible. At the most the output will be able to be the same as the same period last year.

"Early crop losses are to be made up by late crops." If so, what actions should be taken in regard to late-crop production of grain this year?

At present, it is no longer realistic to hope to increase grain output through increasing sown acreage, and the only way is to make great effort to increase unit area yield, while relatively stabilizing the sown acreage.

The work of stabilizing the sown acreage for grain has now already had a good beginning. Middle rice shoots have been transplanted on 1.93 million mu of land, and it is estimated that transplanting can be completed for 2.1 million mu, the same as last year; the work of

planting late rice has been completed; and summer harvesting is progressing faster than the same period last year. By 21 July, regionwide 4.9708 million mu of rice had been harvested, representing an increase of nearly 100,000 mu over the same period last year. The increase in water supply is very good for preventing late rice from missing the season. But, as there is a good side, there is also a bad side; and some problems are rather prominent: because of financial difficulties, some counties (or cities) not only are unable to pay for cadres' expenses for going to the rural areas, but are even unable to give employees their pays timely and fully. The phenomenon of lacking funds is particularly prominent in the agricultural technology organizations, thereby seriously adversely affecting the enthusiasm on the part of the cadres; as a result, the use of advanced agricultural technologies cannot be spread in a satisfactory manner. For instance, the amount of land making use of improved hybrid varieties, the method of two-stage seedling growing, the method of enhanced-efficiency seedling growing, furrow cultivation technique, or leaf-surface fertilizer is smaller than the previous year. In terms of the actual sown acreage, this year hybrid early rice saw a decline of 1.57 million mu from the same period last year, and late rice saw a decline of around 1.6 million mu from the same period last year. Leading officials of some counties (or cities) have failed to concentrate on agricultural work, and especially, relaxed necessary leadership over grain production. According to agricultural experts, without the solution of practical problems facing agricultural technology cadres, it would be difficult to spread the use of advanced agricultural science and technology and management methods, or to achieve the goal of increasing the output of autumn grain. Recently, the agriculture, forestry, water resources, personnel, and finance ministries of the state and the State Planning Commission issued a joint circular, pointing out: "The state technology-popularization organizations' expenses should be the responsibility of the state's finance, and disconnecting' or weaning' should not be carried out in a willful manner. The budgets should not be reduced, but, instead, be increased, with continued increases in fiscal revenues." Therefore, in order to have a good late-rice harvest so as to fulfill this year's plan of increasing grain output, party committees and governments at various levels must enhance their understanding, truly place developing agricultural production above all other economic work, and, in accordance with the spirit of the relevant circulars issued by the state, adopt measures to effectively resolve financial difficulties facing agricultural technology organizations, so as to fully develop the enthusiasm on the part of agricultural technology cadres at large in an effort to do a good job of spreading the use of agricultural technologies.

At the same time, in regard to production, it is necessary to do four things well: First, while properly adjusting industrial structure, stabilize the sown acreage for grain. In places where conditions are ready, it is necessary to seize the opportunity offered by the current situation of a large amount of rain to expand the sown acreage, and to work hard to do a good job of growing dry grain; second, do a good job of managing and caring for seedling land, especially the seedling land for hybrid late rice, so as to grow strong seedlings and to make sure that transplanting can be completed on more land; third, concentrate the work force on, and step up, the fast harvesting and planting, making sure that the task of late rice transplanting is basically completed before 10 August, so as to avoid being affected by the cold dew wind; and, fourth, vigorously spread the use of such advanced cultivating technologies as furrow cultivation technique. It is planned that regionwide furrow cultivation technique will be used on 8 million mu of land this year. If the amount of land using the technique was too small when early rice was grown, then more land should use the technique when growing late rice.

Brief Report on Grain Production, Sales, Purchase

93CE0822A Beijing NONGMIN RIBAO in Chinese 12 Jul 93 p 2

[Article by Ma Xiaoming (7456 0879 2494) and Zhou Wenhui (6760 2429 6540): "Current Grain Production, Sales, and Purchases Summarized"]

[Text] With the increased price reform power of agricultural productions, the released pricing scope for grains has been incrasingly expanding. At present, 80 percent of the provinces (prefectures and municipalities), and over 1,000 counties in China have completely released grain sale and purchase prices, in the economic form of written sales and purchasing contracts instead of solely being purchased and distributed by the state.

Studies in such grain price releasing areas as Hubei, Zhejiang, Jiangsu, and Hebei, etc., have uncovered the following characteristics:

First, varieties and structures of grain are developing in the direction of high quality, gradually alleviating the contradiction of an unbalanced supply and demand structure for grain varieties. At Jiaxing, the leading granary in Zhejiang, 83 percent of the entire rice production of of medium or high quality. In Hubei Province, 90 percent of the total rice output is of medium or high quality, a 10 percent improvement over last year, with 30 percent being of high quality.

Second, there are considerable regional variations in the rise and fall of purchase prices. After Jiangsu released grain prices, the purchase price showed a tendency to rising every month, and in the first quarter rose 7.6 percent compared to the same time period the year before. The grain purchase price in Zhejiang dropped another 0.4 percent in the first quarter on the basis of last year's price drop. The wide regional variations in pricing are due to the existence of discriminitory prices according to quality. A high quality consumption structure leads to an increasing demand for short-grain rice, and long-grain rice becomes more and more difficult to meet needs of comsumers. Long-grain rice is currently

used in many places primarily for industrial purposes. The high quality rice from Jiangsu Province tends to pull up the purchase price while the high prices for Zhejiang's low quality rice leads to rice flowing into the province from outside and forces the purchase price down.

Third, the assignments of concluding sales and purchase contracts for grain have essentially been accomplished in each locality. To maintain an overall balance on the gross amount of grain in order to stablize the peasants' enthuasiasm, the 50 billion kilograms' order assignment is unchanged in 1993, the amount not changing with the price release. The situation is better regarding the conclusion of contracts in each locality. Up to now, an assignment contract for an order totalling 2.9 billion kilograms' has been concluded with peasants in Hubei Province. Up to the middle of April, the assignment for an order of 3.8 billion kilograms' grain in Zhejiang is bascially complete.

Fourth, the distribution of advance payments for future purchases is very unbalanced. Up to 30 April, 200 million yuan in advance payments for future purchases had been allocated to the Agricultural Bank of China in each municipality and county of Zhejiang, nearly twice the amount as last year. Jiangsu's economy is more developed, and in the southern part of the province, where agriculture is supported by industry, advance payments can be guaranteed; but in the northern part, where the economy has developed more slowly, there are certain difficulties with this. For example, all of 38.75 million yuan of earnest money for grains was allocated to the proper localities in Wuxi, the 1993 capital budget for agriculture was increased by 13 percent over last year, and funds for grain purchases can be thoroughly guaranteed. In Hebei, although 320 million yuan in earnest money for grains was allocated in separate batches to grain departments, it took a long time to carry out completely. Up to 25 May, there was only 140 million yuan earnest money for grains allocated to farmer families, which was only 45.2 percent of the total capital. This situation was due to a lack of understanding of the policy on the part of the peasants, and created a serious situation in which the funds were diverted by localities for other uses.

Peasants have reacted differently to the policy of distribution of advance payments for future purchases. It has been welcomed in the backward areas, but peasants in the advanced, developing areas complain that the procedures for advance payments for future purchases is overelaborate. In addition, the interest charges (returned to the peasants when the grains are purchased), make them reluctant to get involved with the procedure.

Fifth, the lowest protective price of grains must be established on the basis of each area's actual sitation. In Hubei, it is 21 yuan per 50 kilograms of early season long-grain rice, 28 yuan for late season long-grain rice, 31.5 for short-grain rice, and 21 yuan for corn. In Zhejiang, it is 24.6 yuan per 50 kilograms of early season long-grain rice, 74.5 yuan for soybeans, and 30.8 yuan for corn. To a certain degree it has played a role in implementing the lowest protective price to stablize the peasants' enthusiasm.

Sixth, with the accelerated development of grain markets, it the process of allocating and selling grains inside provinces or between provinces has become increasingly smooth. As grain markets have continued to expand, a new structure has formed which is directly under the provincial grains departments and led or coordinately by relevant departments to promote major circulation of grain. From 11 April 1992 to the end of this past March, the Hubei grain department had allocated and sold 4.7 billion kilograms of grain, an increase of 66 percent over the same time period last year. This included 2.7 billion kilograms inside Hubei, and 2 billion kilograms outside the province.

Problems which warrant careful considerations:

First, there is still much work to do in raising the capital needed for grain pricing subsidies. Chemical fertilizers and diesel fuels, which were originally linked with grains, have gone back to pricing differentials, but it is still difficult to raise the funds for these differentials Hubei, on a formula of two-thirds from the state and one-third from the province, has a burden of 102 million yuan. The provincial department of finance has raised 50 percent of this, or 51 million yuan, a major achievement, but the 51 million yuan shortfall must be borne by county finances, and some counties cannot even meet their payrolls. The limited financial strength of the counties will affect the pace of implementing differential pricing. Huanyin, Jiangsu has to bear a 9.8 million yuan grain price subsidy, and this is not easy to bear for a city which annually shows a budget deficit (the total budget deficit for 1992 was 350 million yuan, and the forecast budget deficit for 1993 is 190 million yuan).

Second, there basically has been no change in the capital shortage for purchase of summer grains. Up to the end of May, the city of Macheng, in Hubei, has been short 75.75 million yuan in capital for purchasing summer grains. For Huanyang, in Jiangsu, there is a short of 250 million yuan in its summer grains' purchasing capital of 385 million yuan. Henan needs purchasing capital of 2.5 billion yuan, and in addition to that allocated by financial departments, still needs to raise 1.16 billion yuan. In light of the current situation, it will have major problems collecting this share of the funds.

The reasons for this lack of funds are as follows:

1) A tight financial situation, and an annual budget deficit.

2) There is a quite serious situation of long-standing debts for grains, and some of these grain loans may never be repaid. Grain departments have a difficult time obtaining repayment of expired loans, both within and from outside of the provinces. For example, there is little hope for a 1.7 billion yuan delayed payment loan for allocating and selling grains in Henan.

3) The Agricultural Bank of China is short of capital. For instance, there was only 20.74 million yuan in deposits in the agricultural bank in Huanyang in April, with a less than 1 percent reserve payment rate, a deposit balance of 1.374 billion yuan, loan balance of 4.036 billion yuan, for a deposit and loan imbalance of 2.686 billion yuan.

Third, the price of agricultural products is rising rapidly, which results in cumulative production costs for peasants, and reduced their profits from planting grains. In the first quarter, the prices for agricultural products has risen by 8.5 percent compared to the same period last year, and in some provinces, the rate of increase has even gone into double digits. For instance, the price of agricultural goods in Zhejiang rose 9.1 percent during January to April, and among these the April increase was highest, 16 percent. During this January to April period, grain farmers had to pay an extra 35.66 million yuan in their costs due to the rising price of agricultural products. The rise in production costs caused a continual reduction in the benefits from planting grains. For example, peasants in Huzhou, Daishan town in Zhejiang Province say that every mu of early season rice requires an outlay of 130 yuan for production supplies; calculating on a basis of 350 kilograms production per mu, and a price of 49.2 yuan per hundred kilograms (the lowest protective price), the total income from one mu of early season rice is 170 yuan. This leaves only 40 yuan after the cost of production supplies is subtracted. Each laborer costs 15 yuan, so when labor costs are deducted, there is extremely little or even no profit in planting grains.

To avoid a landslide collapse of grain production, each level of government must carry out the state's grain policies, strengthen administration and supervision of agricultural product pricing, and arouse the peasants' enthuasiam for planting grains. This will promote lifting grain production to a new level.

Lower Summer Wheat Prices Worry Peasants

93CE0822B Beijing NONGMIN RIBAO in Chinese 15 Jul 93 p 1

[Article by staff reporters Tang Yuanjie (0781 0955 4814) and Zhao Zekun (6392 3419 3824): "Over 10,000 Big Grain Families Cease or Change to Other Businesses, As Bumper Grain Harvests Make It Hard for Them To Smile; A Report on Grain Sales in Shanxi and Hebei"]

[Text] After a year's hard work, a bumper harvest usually brings joy to peasants. But this year reporters saw a situation in which this summer's bumper harvest of grains had the peasants worried. One after another they complained that this summer's grain purchase price was lower than last year's, while the cost of producing grains was higher than in any previous year. Planting fields this way, there were no profits to be made. The only success was in southern Shanxi, where over 10,000 families who were major grain producers turned in their contracts for the over-planted parts of their lands so that they could shift to other trades. Some of these major grain planting families even set aside only a few mu of their lands for grains, while planting gourds, beans, or melons on the rest.

The grain protective price was lower than the market price, but controls on prices of farming supplies made it higher and higher. In Chengde, Hebei, rural cadres told reporters that this was strange. The market price there is higher than the protective price, while the controlled price of supplies is higher than the sales price. How can such pricing protect peasants' profits? Some peasants who were purchasing chemical fertilizers noted that: in the past, with no price controls, chemical fertilizer was 900 yuan per ton; but the controlled price came out at 1,050 yuan, which caused a great deal of commotion. When we come to buy now, it is still up at 1,000 yuan.

At this time, reporters also conducted interviews in Yunchen, a major grain producing prefecture in Shanxi. The responsble person in the Yunchen grains bureau summed it up this way: the lowest protective price for third class wheat in Shanxi this year was 0.372 yuan per jin. But even this price included three subsidies to peasants for unfulfilled sales. Meanwhile, the price of wheat was about 0.38 to 0.40 per jin, regardless of whether this was in the market or by means of other channels such as going into the countryside to purchase directly from peasant families. A couple of peasants in Wenxi county asked angrily: Just who does this price protect? Several peasants at the Linyi county grains collection station put it this way: right now the average production output is five hundred jin, which brings a gross income of 190 yuan; the cost of double irrigation is 60 yuan, while seeds, turning up the soil, and reaping cost another 60 yuan, and chemical fertilizer costs 40 yuan more. So, not deducting labor service, the average income per mu is only a bit more than 30 yuan. One full-time laborer can plant 3 to 4 mu of fields, so where are the profits in such work?

While the price of agricultural supplies is rising, the purchase price of grains is dropping. Take chemical fertilizer as an example of agricultural supplies in Hebei. Last year the price of nitrogen fertilizer was 800 to 900 yuan per ton, but it has risen to 1,000 to 1,200 yuan this year. The sales price of chemical fertilizer in Shanxi was in the same situation as in Hebei. Peasants of Xia County in Shanxi said that with the price of chemical fertilizer going up, they have had to abandon their hope of irrigating the fields two or three times, so they have decided to irrigate the fields one less time and apply fertilizer one less time. The agricultural supplies system said that not only has the price of imported chemical fertilizer gotten too costly to purchase, domestically produced chemical fertilizer has also gotten terribly high, and even where there are sales, it is difficult to sell all in stock. Every county in Shanxi showed a more than 30 percent drop in sales of chemical fertilizer in the first half of the year.

Peasants in Yunchen keep their own accounts. They asked reporters: the state seeks to protect peasants' enthusiasm for planting grains, and not give blank receipts, and this is very good. However, how are they protecting enthusiasm? Last year, the purchase price for wheat was 0.40 yuan per jin, while this year it was only 0.385 yuan per jin for high class wheat with a protective price was 0.372 yuan. Why is it that profits have turned out to be so little with so much more invested in production, while with the protection of the protective price, the prices have gone down?

With no profit gained from planting grains, many grain-growing peasants have gone out of business. In the prefectures of Chengde and Baoding, both in Hebei, there used to be many major grain-planting families, but now many of these big families are dealing with their fields as if they were dismembering a body. Some of these have expanded development of apple orchards, hawthorn gardens, or melon gardens. Quite a few towns and villages were hard pressed to accomplish their summer grains assignments. The reason were that peasants planted their fields with other crops in place of grains or constructed manufacturing plants there. On the west bank of the Feng River, we could see the dense smoke of just-ignited coal fires. The local people explained that the profits from iron smelting and coking were far better, several times or several tens of times better, than from planting grains. By associating with two or three other families or by employing several persons, a coking plant can be built up very quickly. In Xiangfeng County, the reporters also saw many piles of soil heaped up on freshly reaped fields, as more than a few big families were building plants while destroying their fields. The chief of the grain bureau in Yongji County, Yuncheng, said that most of the original registered big families in the county now planted only a few mu of wheat fields. Even the famous big grains family who had won a nation award was unable to bear the grain price burden, and planted only a little over 10 mu of wheat. A couple of days ago, this big grain planting family declared that they would be unable to plant at all next year. Yuncheng is a famous base for commercial grain, and these reporters investigated only four counties. Preliminary statistics are that as many as 10,000 big grain plaanting families (those planting over several tens of mu in grain fields) have gone out of business, going instead into other businesses or expanding other types of production, thereby reducing the grain field area.

Statistical Bureau Reports Summer Grain, Peasant Income

93CE0822C Beijing NONGMIN RIBAO in Chinese 20 Jul 93 p 1

[Article by Mao Xiaorui (3029 2556 3843): "National Bureau of Statistics Announces Rural Economic Development Situation for First Half of Year: Summer Grains Output Increased 4.5 Percent; Peasants' Income Increased 7 Percent"]

[Text] Statistics from the National Bureau of Statistics show that this year's output of summer grains set a new record in China. The gross output of 107.98 million tons was an increase of 4.5 percent over last year's bumper harvest. Livestock husbandry and fishing showed stable production increases, while the output of pork, beef, and mutton was over 14.4 million tons, an increase of 9 percent over the same period last year. Aquatic products, vegetables, and fruits added variety and increased production output. An improved output of nonstaple foods enriched consumers' "food basket," and helped to stabilize the market.

The achievements of this summer's bumper harvest of grains and agricultural and nonstaple food, are due to a series of policy measures which were implemented for agriculture in various ways by the state. But, looking at the entire agricultural situation, there is still a lack of reserve force in production development. Production investment went down, and sales of agricultural supplies increased slowly, only 2.1 percent over the same period last year. Not every policy measure to strengthen agriculture has been implemented, and it is expected that this strengthening and implementation will go on continually in the second half of the year.

The per capita monetary income of rural residents is 423 yuan, and after price factors are deducted, it actually increased about 7 percent. The per capita income of city residents actually increased by 13.5 percent, to about 1,116 yuan.

Purchase of Summer Grain, Oil Bearing Seeds

93CE0822D Beijing NONGMIN RIBAO in Chinese 22 Jul 93 p 1

[Article by Chen Wei (7115 0251): "Purchase Plan for Summer Grains Going Smoothly; Rapeseed Purchase Plan Difficult To Accomplish"]

[Text] This reporter has learned from relevant departments that this year the work of summer grains and oil orders nationally developed successfully. The basic situation is that, up to July 15th, 24.01 billion jin in grains have been ordered, which occupies 86 percent of the plan. Indications from each province are that, although there was a slowdown in summer grains going into warehouses due to such reasons as the postponed season, etc, it will still be possible to accomplish the summer grains order plan, and some provinces and prefectures plan to accomplish the whole year's order plan during this summer.

Because of reduced area, etc., it is forcast that there will be a two-tenths to three-tenths reduction in the output of rapeseed. The twelve major production areas plan to purchase 6.1 billion jin, which will be a 2.6 billion jin reduction. Up to 15 July, it had accomplished 2.87 billion jin, which occupies 46.5 percent of the plan. At present, prices are rising in the rapeseed market, and in some major production areas we see the appearance of

multi-channel competitive purchasing by means of raising prices, which will make it difficult to accomplish the rapeseed purchase plan.

This is the first purchase of summer grains in the summer after the national grains price was released. The pace of purchases has been unbalanced in the provinces. Three provinces, Shandong, Zhejiang, and Yunnan, have fulfilled or overfulfilled their summer grains order plans. Hebei, Henan, Beijing, Anhui, and Shanxi have completed over 80 percent of plan. Sales are slow in some provinces which suffered disasters, and in some provinces and cities there has even appeared competitive grain price rises, a situation in which peasants sell their grains grudgingly, so the grains departments have none to purchase. This year, the ordering of grains has gone slowly, and to date only 15 percent of plan has been fulfilled.

Jiangsu Undergoes 'Grain Purchasing War'

93CE0822E Beijing ZHONGGUO XINXI BAO in Chinese

[Article by Zhang Xuefa (1728 1331 3127) of the Grains Bureau, Sheyang County, Jiangsu: "Gunsmoke Everywhere From the Northern Jiangsu Grain Purchase War"]

[Text] This summer is the first season after the state released grain sales, purchases, and prices. In north Jiangsu, the sharpest grain purchasing war in history broke out. Each purchase unit competitively raised its purchase price at the same time the quality standard for grains was lowered, which brought disorder to purchasing, and the grains department was unable to fulfill its function as principal channel.

Beginning in the last ten days in June, when there was insufficient time to arrange harvested grains for sun-drying, some collective and private grain purchase units throughout northern Jiangsu successively hung out their shingles to start grain purchasing. There were at least five to eight grains purchase units per town in addition to the local grains administration office, with more than 40 of these units in one case. These units included supply and marketing cooperatives, agricultural machinery stations, transportation companies and seeds stations, etc. Besides these, there were units which use grains, such as beer plants, malt plants, flour mills, and vermicelli plants, which purchase grains directly for use by their own people. These consumers were quite a large proportion of the grains purchase competitors.

A great many of the purchasing units, in order to compete for grain resources, mutually raised the purchase price of beer barley from an initial 0.76 yuan per kilogram to a peak of 0.92 yuan; the purhcase price of broad beans was mutually raised from an initial 0.96 yuan per kilogram to 1.12 yuan per kilogram. The price of wheat was raised from 0.60 to 0.64, then 0.66 yuan per kilogram, and even to a peak of 0.68 yuan per kilogram, which was 0.04 yuan higher than the state purchase price per kilogram. Grains using units raised the price 3 to 4 yuan per 50 kilograms: because the purchased orginal materials went directly into the factory, from original materials to products, there were savings in labor, money, and circulation, so the price after raising was still reasonable for these units. Other purchasing units had to raise their prices very reluctantly in order to ensure fulfillment of contracts, and some did not even make any money. In order to contend for grain resources, those purchasing offices which were not attached to the grains department rushed to purchase grains regardless of quality. Some purchasing units accepted barley which had a moisture content of over 15 percent, and over 3.5 impurities; broad beans with moisture content of over 18 percent, and more than 17 percent impurities; wheat having more than 16 percent moisture content, and over 3 percent impurities. These were all far from the national medium quality standards.

There was a town with over 20 barley purchase units which changed prices every day, some even having two different prices within a single day. Peasants would run to one purchase office for a higher price at one moment, and then run to another purchase office for an even higher price the next moment, and this brought disorder to the market.

The mutual rise in the price of grains combined with lower quality requirements resulted in peasants holding back waiting for the highest bid, with only those who were in urgent need of money selling their grains right away. Even those peasants sold only part of their grains, while those peasants who were not in need of money at the moment all sat waiting for the price to go up.

The grains purchase war that broke out this year was primarily due to the state opening up the sales and purchasing market for grains and oil, and releasing the purchase price for these commodities, which motivated other units not atteched to the grains department to take part in purchasing. This raised the purchase price of grains, while lowering the quality standard for grains. Another reason was the effect of contract profits, which resulted in the peasants losing their enthusiasm for planting grains, and a relative reduction in the area of land committed to grains. The output of grains dropped, and one by one the grain using and operating work units rushed to purchase grains.

In some grains administration offices and grains stations over northern Jiangsu, the busy situation of past years where a great many people could not find sufficient grains, has come to a rare calm. In one county, at the end of June, the grains department's assigned order of wheat going into the warehouse was nearly zero. The amount of barley and broad beans going into the warehouse were both about 2 million kilograms, which was only 6.5 percent of the county's output. All of the grains administration offices and grains stations altered their original method from waiting for customers to come to setting up multiple purchase points at the peseants' homes in order to purchase more grains. However, because of the large quantities of grains purchased, long storage periods and

high costs, they demanded higher quality. In addition, they only purchased at the state-directed price.

During the sale, buyers at the grains stations asked for arrangement and sun-drying, because of the high moisture content and level of impurities. The peasants balked at this and refused to sell, saying that other purchase are rushing to buy what you find unsatisfactory, so the original purchasers were forced to watch the grains flow into the hands of others, with no way to stop it.

Lashed by the multiple purchasing channels of grains purchasing departments, the grains departments of all counties are having with difficulty negotiating grains prices and oil purchases for their state ordering contracts. At present, the state has reduced its subsidy to grains departments, and the staff of these depend chiefly on purchase of grains and oil to earn a living. The onslaught of the multiple purchasing channels has greatly lowered the morale of grains enterprises, for this could have a severe effect on their income.

There is a potential crisis lurking behind this rush to purchase grains. The relative shortages of barley and broad beans this year forced each unit insuccession to purchase at high prices. This sent a message to the peasants: planting barley and broad beans an easy way to make money, and it must prod the peasants to change their original plans, and plant more barley and broad beans in the fall. In next year's sales, due to the resultant oversupply, their lack of saleability in the market will force the price down, and it will be the peasants who suffer losses.

Looking at it from another aspect, the price hikes by purchasing work units and the lowering of quality standards have planted the seeds for another disaster. Grains which have a high moisture content of grains and large impurity content are difficult to keep, and must be processed within a short time; if this is not possible, these grains must be arranged and dried in the sun promptly to reduce the moisture content and impurities; otherwise they will mildew and rot. But arrangement and sun-drying grains on the one hand adds to the costs, and on the other hand creates some quantity loss. In the end, these grains will figure out to a loss, without a profit.

Rush multiple channel purchasing of grains sources has brought on a great deal of difficulties for the grains department in its effort to purchase the national contract order of grains. If the state assignment cannot be accomplished, the consequences are dreadful to contemplate.

Li Zehou on Nation, Society, Individuals

93CM0440A Hong Kong MING PAO YUE-KAN [MING PAO MONTHLY] in Chinese No 8, Aug 93 pp 90-102

[Article by Li Zehou (2621 3419 0624): "How Can We Be Both 'Modern' and 'Chinese?'"]

[Text] **The Thesis That "When the Nation Was in Danger, the Philosophy of the Enlightenment Was Shoved Aside" Excites An Emotional Reaction**

Since 1986, when the saying "when the nation was in danger, the philosophy of the Enlightenment was shoved aside" appeared, there have been many comments about it, both in China and abroad. There are some who approve of it, and there are also many who differ with it. Here, I will once again explain, in a simple way, several points:

The emotional reaction to the expression "shoved aside," was something I never anticipated. Originally, I used the expression "shoved aside," as well as the statement that "the philosophy of the Enlightenment was shoved aside when the nation was in danger," simply as a nonjudgmental description of an historical fact. There was no condemnation implied. What I said was that, in China in recent times, the modern spirit of the Enlightenment, which stands for the rights, freedom, and reason of the individual, was forced down to a lowly position. This was true especially after the 1930's, during the passionate struggle for national survival stirred up by the resistance to Japan, and most especially in the regions, respects, systems, and (military) organizations that were governed or led, mainly through protracted military struggle, by the Chinese Communists. As I once pointed out, this is in its own way historically reasonable and "necessary." Looking at it in terms of intellectual history, since the end of the last century, eminent intellectuals have strongly stated that the prosperity and security of the nation and "national freedom" were higher than individual interests or individual freedom. They included Yen Fu, Sun Yat-sen, and even Ch'en Tu-hsiu, all of whom knew well and approved the modern Western concepts of freedom, democracy, rationalism, and the philosophy of the Enlightenment. This was also a reflection of the special circumstances of Chinese history in recent times. This view of mine, however, has been described again and again as "a statement that plainly implies condemnation" (From: Ku Hsin, *An Historical Overview of the Philosophy of the Enlightenment in China*, p 39, Oxford University Press, Hong Kong, 1992) or, "the whole point of asking whether 'the philosophy of the Enlightenment was shoved aside when the nation was in danger,' is to deny the history of the Chinese people's opposition under the leadership of the Chinese Communist Party, to imperialism and feudalism, and the transformation of the old semi-colonial, semi-feudal China into a new, socialist China." (From: CONTEMPORARY THOUGHT, Beijing, Number 3, 1991). There has even been heard the absurd criticism that I say it is better to be a slave of a foreign power, if that means there can be individual freedom. What is interesting is that a nonjudgmental description of historical fact has been taken for a value judgment expressing "condemnation," and moreover has produced such a forceful emotional reaction. Why? Is it that this problem of "nation, society, and individual" is today still too sensitive an issue, with too great meaning for the present?

Not Everything Should Be Blamed on Chinese Culture

If so, then it becomes even more important to discuss and study this question. In the above-mentioned essay by this writer, regarding the philosophy of the Enlightenment and national salvation, I did indeed point out in the epilogue that at the conclusion of many years of war (meaning mainly after 1949), the Chinese Communists did not seriously study China's special historical circumstances and therefore did not abandon or revise the whole collection of systems, concepts, and habits that went with this special situation. Moreover, they became more intensely committed to it. Under the various banners of "the revolutionary tradition" and "the spirit of Yan'an," as well as the "combat selfishness and rebut revisionism" and "ceaseless revolution" of the Cultural Revolution, they categorically denied modern Enlightenment philosophy, where the individual is most important. What was stressed was that the interests of the nation and "the people" were higher than those of the individual, even his very life (declaring also that "the party" jointly represented all these interests). The result of this was a full-scale resurrection of feudal tradition and dictatorial rule. The problem still has not been resolved to this day. We are still seriously confused over how to face up to and deal with the problem of nation, society, and individual, both in practical action and in theory. From the so-called "new authoritarianism" to extreme individualism, from the 1980's to today and into the future, this confusion has appeared and will continue to appear.

How should this problem be studied and handled? In my short essay "The Tendency Toward the Philosophy of the Enlightenment," I said that what is important now, is not to stir up any movements (including what might be called a "New Enlightenment Movement"), but to create new forms. I have always believed that the key is not in thought but in systems; not in culture but in politics; not in how backward the people may be in their thinking, or the faults of traditional Chinese culture, or insufficient enlightenment among the masses, but in the lack of modern democratic procedures and legal processes that function effectively to establish boundaries between the group and the self, and to clarify the relationships among the individual, society, the party, and the nation, and their respective places in human life. Therefore, in the fervent debate on culture of the 1980's, I explicitly opposed blaming all (or most) of our faults, problems, and troubles on cultural tradition or traditional culture. The problem is not with culture, but in how to bring into realization the various elements and proposals of the

Enlightenment philosophy (such as individual freedom) through a series of established forms (especially legal forms).

The Rule of Law in China Cannot Be Achieved All at Once

Building a society governed by law is not something we can do all at once. In the West, it was a lengthy process. In China, the difficulties and obstacles are even greater. I believe that there are at least two prerequisites to be met:

A. Modern economic and technological development and the emergence of a middle class. These are necessary preconditions for democracy in politics. Once we possess them, we still will not necessarily have democracy, but we will certainly not have democracy without them. This is why over the last ten years the "Foreign Investment Law" could be formulated from scratch and put into effect, unlike many other laws (such as the Constitution) that are only meaningless words on paper. The pragmatic needs of economic development and reform require that legislation become systematic, democratic, and effective. I look forward to continuing reform and implementation of rule by law that will begin with foreign capital and extend to domestic capital, and then extend beyond the economy to other areas. So long as there is a relatively robust, modern economic structure as a foundation, then all political forces will be constrained by the needs of economic development. When there is no longer rule by extra-economic power groups and concepts, then democracy and the rule of law, as well as the various elements of the philosophy of the Enlightenment can avoid being blown away by the wind overnight (by a military coup or leftist dictatorship).

B. The emergence of civil society; just as a modern economy is a necessary condition for democracy and the rule of law, this might be a sufficient condition. After 1949, the "revolution" destroyed the various private associations that China then had, though they were on no great scale and on no high level (they ranged from professional associations, associations of people from the same locality, and student associations to publications for employees at the same business, academic societies, and various economic, cultural, and political clubs, to numerous religious groups and recreational organizations). The "freedom of association" decreed by the Constitution not only was not implemented, but was sternly suppressed, and it is the same to this day. The whole life of the individual, from his public duties to his private affairs, and from his practical interests to his likes and dislikes is directly governed, dominated, determined, and controlled by "the nation" (that is, the party and the government) through administrative measures. It is not only the individual that is eclipsed; even society is eclipsed.

The hope for changing this situation lies in civil society. Looking into the future, civil society may appear first in those regions where the economy is relatively prosperous and where economic interest and not political power begins to govern the lives, activities, and viewpoints of the people. At that time, various interest groups will continually emerge, and establish organizations in a variety of forms, including some that will represent the interests, ideals, and viewpoints of intellectuals. The growth of a strong civil society will lay the foundation for vigorously promoting democratic law-making and the freedom of public opinion, and for realizing a rational society that is pluralistic, tolerant, and stable, and where various forces keep one another in check.

Only Through Continual, Applied Study and Experimentation Can We Find the Way To Be Both "Modern" and "Chinese"

Individual freedom is a topic that has been much discussed throughout intellectual history, and I do not intend to discuss it here. I believe that it is probably only after civil society is fairly well developed and mature, and only through national legal forms that individual freedom and individual rights can be realized without leading to anarchy.

To sum up, relations among nation, society, and individual cannot be the product of any diagrammed design for an ideal society, nor of any academic speculation, including the so-called "federal system" and the "program for democracy." What is important is whether we apply ourselves to seeking out, summarizing, accumulating, and drawing conclusions from the practical experience of the past that we have before us; and constantly pursue applied study and experimentation so as to gradually find a way forward that is both "modern" and "Chinese." For instance, in economics, "shock treatment" is not really necessary. We don't need to carry out wholesale privatization. We can have a mixture of various kinds of private ownership, collective ownership (like town and township enterprises) and public ownership. In politics, we need not implement universal suffrage and a multi-party system right away. We can improve and expand present forms of government (such as the people's congresses, the consultative congresses, and the democratic parties, as well as permitting factions with openly differing views within the Communist Party). In culture and thought, we do not necessarily have to adopt Western individualism. We can carry on the Chinese tradition of stressing interpersonal relationships and giving importance to idiosyncracies among people. Therefore, we don't have to accept competition, profit, legal adjudication, and other basic principles of present-day capitalism as our absolute values and sole standards. On the contrary, the only way out is to study and reflect on Chinese tradition and modern experience and fashion transitional forms (for use in China) that will achieve (Western-style) modernization. We must accumulate small things into big ones, both in quantity and in quality. We must go from new wine in old bottles to new wine in new bottles. We must ceaselessly improve and progress so that China can gradually enter a new era in the 21st century.

Finally, I want to talk a little about philosophy and theory. The starting point for everything must be the "person." What I call the "person," is not the "autonomous" person of individualism (this is a nonhistorical fabrication), nor is it the "collective" individual, as in the so-called "general will of the masses" (which has led to monstrous calamities). I mean the existential individual, who should be considered to be the real manifestation or the applicable unit of human groupings. Relations between individuals and groups have gone through exceedingly complex changes in the course of history. They cannot be commanded by the will of any one individual, nor are they determined by any a priori principle. Therefore, relations among nation, society, and individuals cannot be established either on the theoretical foundation of individualism, nor on a design for an ideal society. They can only be the product of experience that changes ceaselessly in the course of historical development. This is my conclusion. (The original title was "Nation, Society, and Individual." Headlines were inserted by the editor.)

EAST REGION

Jiangxi Regulations Governing Special Trades

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[Jiangxi Provincial Regulations on Security Administration of Special Trades—Adopted on 20 June 1993 at the Third Session of the Standing Committee of the Eighth Jiangxi Provincial People's Congress]

[Text] Chapter I—General Provisions

Article 1: These regulations are formulated on the basis of the relevant laws, regulations, and policies of the state and in line with the actual situation in this province for the purpose of strengthening security administration of special trades, safeguarding social order, facilitating the healthy development of special trades, and ensuring the smooth progress of the socialist modernization program.

Article 2: These regulations apply to units and individuals running hotels, engaged in seal-engraving and printing, and dealing in secondhand goods in this province.

When those referred to in the foregoing paragraph are doing businesses not in the nature of special trades, they are not governed by these regulations.

Article 3: The people's governments at all levels and the administrative offices of various prefectures shall see to it that these regulations are put into effect. Public security organs shall be in charge of the security administration of special trades. All other departments concerned shall, within their respective fields of duties, work in close coordination with public security organs to make a success of the security administration of special trades.

Article 4: In exercising security administration over special trades, public security organs must adhere to the principle of administration in accordance with law, protect the legitimate rights and interests of special trades, check and ban illegal operations, and prevent and strike at all kinds of law-offensive and criminal activities.

Article 5: In accordance with their actual conditions, units engaged in special trades shall formulate and put into effect various security systems and gear up the training and education of their personnel to raise their abilities to prevent, discover, and control law-offensive and criminal activities. They shall subject themselves to inspection and supervision by public security organs as required by law and help the latter investigate and deal with various law-offensive and criminal activities.

Chapter II—Approval of Opening of Business

Article 6: Anyone who wants to engage in special trades (with the exception of individual seal-engravers and secondhand goods dealers not buying metal scraps) must apply to the public security organ of the local people's government at or above the county level for a "special trade license" by presenting proof of concurrence from the department in charge of the particular trade or the competent authorities concerned. Within seven days after acceptance of the application, the public security organ shall process the application.

All other requirements stipulated by relevant laws and regulations shall be met by the applicant in accordance with the prescribed procedures. No one is allowed to engage in a special trade without a license.

The "special trade license" shall be checked once a year.

Article 7: The following conditions must be met to apply for the "special trade license":

(1) The applicant must have a definite place to conduct production and other operations.

(2) The applicant must have safe operations rules and a security management system; and

(3) The responsible person of the applying unit or the individual applicant must have a PRC resident identification card. If he or she is from outside the country, a valid legal certificate shall be required. Outsiders shall apply for floating resident cards or temporary resident cards.

Article 8: When a unit or individual engaged in a special trade wants to suspend, close down, or change operations, merge with others, move to another address, change the name, legal representative, or line of business, or sign an operational contract with someone, the unit or individual shall request the original license-issuing organ to make necessary changes in the records or to examine the relevant proof and certificates 10 days in advance.

Article 9: For the processing of applications, annual inspections, and the issuance of licenses, the public security organ shall collect fees in accordance with the specific standards established by the provincial people's government.

Chapter III—Hotels

Article 10: Hotels shall keep a register of the guests based on their PRC resident identification cards or other certificates that can prove their status. For guests from outside the country, registration shall be based on their valid legal certificates.

Article 11: Hotels shall have special rooms or cabinets to keep articles and cash for their guests and shall assign special personnel to take care of such rooms or cabinets. There shall be strict procedures for putting things into and taking things out of these rooms or cabinets.

Articles left over by guests shall be kept properly, and a notice put up so that they may be claimed by the owners. After the notice has been put up for three months,

unclaimed articles shall be properly listed and turned over to the public security organ for disposal according to law.

Hotels shall record the guns and ammunition carried by guests on the basis of their arms-bearing licenses and shall advise them to take good care of these items.

Storage in hotels of flammable, explosive, highly toxic, corrosive, radioactive, and other dangerous materials is strictly prohibited.

Article 12: On discovery of law-offensive and criminal activities, suspicious people, criminals wanted by the public security authorities, or contraband goods, hotel personnel shall take steps to stop the criminal activities, put the law offenders, criminals, or contraband goods under control, and immediately report to the local public security organ. In no way shall they connive at and refuse to report the criminal activities or conceal and shield what they have discovered.

Article 13: Prostitution, hiring of prostitutes, gambling, drug abuse, and dissemination of pornographic materials are strictly prohibited in hotels.

Chapter IV—Seal-Engravers

Article 14: Seal-engravers shall require a seal-engraving notice issued by the public security organ in order to make the following items:

(1) Seals (including steel seals) of government departments, institutions, and their subordinate units;

(2) Seals of social organizations;

(3) Seals of enterprises and business seals of individually owned workshops and stores;

(4) Stamps to be used together with seals.

Letterhead stamps can be made only at the written request by the unit concerned.

Individual seal-engravers shall not make seals for organizations.

Article 15: Public security organs shall issue seal-engraving notices on the basis of the following:

(1) The document approving the establishment of the department, institution, or unit and a letter of introduction from the competent authorities.

(2) The registration certificate for the social organization and a letter of introduction from the civil affairs department.

(3) Business license.

(4) Proof provided by the relevant unit.

If the seal of a government department, social organization, enterprise, or institution or the business seal of an individually owned workshop or store has been lost and a new seal has to be made, the unit concerned shall make an announcement in the newspaper to declare the original seal null and void. Only with such an announcement can the public security organ issue a seal-engraving notice.

Article 16: Seal-engravers shall have a sound management system for accepting and recording work orders, for production, quality control, and destruction of discarded materials, and for keeping and delivering finished products.

Seals must be made in strict accordance with the models stipulated by the state. The character style and specifications shall not be changed without permission. Seal-engravers are not allowed to keep specimens or make duplicates. Anyone who has discovered suspects for secretly making, forging, or imitating others' seals shall promptly report the case to the public security organ.

Chapter V—Printing

Article 17: To accept orders for printing books, newspapers, and magazines, printing enterprises shall first need approval from the news and publications (culture) administrative department of the local county people's government. Then, with the consent of the provincial public security department, they shall obtain approval and get a license for printing books, newspapers, and magazines from the provincial news and publications administrative department and submit a report to the public security organ of the local county people's government for the record. Only after these procedures can they accept orders for printing books, newspapers, and magazines.

Article 18: The printer shall have a strict system for recording the acceptance of work orders and other operations, including printing, book-binding, storage, and delivery. It shall have a sound internal system to ensure safe production and successful management. And it shall accept inspection and supervision by the public security organ.

In doing printing work for customers, the printer shall assign special personnel to keep a detailed record of the names and addresses of customers, names of the customers' representatives, description of the printing work, quantities to be printed, and delivery dates for review and examination.

Article 19: When printing publications and printed matter for customers, the printer shall strictly comply with the state regulations governing publications and printing. For printing publications for publishing houses and periodical-issuing units (editorial departments), it is imperative to implement the system of printing at definite locations.

Article 20: To print workers' identification cards and passes for major events and coupons and certificates to

be circulated in society, the printer must have documentary proof from the customer's superior department and printing permission from the public security organ.

To print classified materials and documents, it is imperative to comply with the relevant provisions established by the security department.

To accept work orders for printed matter referred to in the two foregoing paragraphs, the printer shall establish a secret-keeping, supervisory, and security system and assign special personnel in charge of the work. The printer shall not keep copies of the printed matter, imitate or duplicate it, or leak information about it.

Article 21: Printing and sales of reactionary and pornographic printed matter and other illegal publications are strictly prohibited.

Article 22: Nonprofit-making printing plants and blueprint factories (workshops) set up by government organizations, armed force units, schools, and industrial and mining enterprises shall strengthen their internal security management and accept inspection and supervision by public security organs according to law. To accept work orders from outside customers, they shall apply for a "special trade license" in accordance with these regulations.

Article 23: No printing enterprise shall sell types without approval from the public security organ.

Organizations buying types must write a letter stating the style of characters, type number, and quantity needed and present the letter to the designated units to purchase the types.

Chapter VI—Secondhand Shops

Article 24: In conducting their operations, including purchase, consigned sales, and mortgage, secondhand shops must carefully check documentary proof as to the sources of the goods and record them item by item. Anything suspicious shall be reported promptly to the public security organ. Hiding and destruction of stolen goods are not permitted. Records of purchase, consigned sales, and mortgage shall be retained for five years.

Article 25: Metal scraps turned out from production operations and old motor vehicles junked by government departments, social organizations, enterprises, and institutions shall be purchased by state-designated units, and no individually owned secondhand shop is allowed to buy them. Buying and selling old motor vehicles shall take place in the secondhand vehicle market.

For purchase and sales of the aforesaid items, there must be proof from the selling unit or the seller must have a resident identification card. Also required is the license of the vehicle.

Article 26: No metal scraps turned out from production operations, discarded, and picked up by individuals shall be purchased and no valuables shall be accepted for consigned sales or as mortgage unless the sellers present their resident identification cards. Without approval from the public security organ, no salvage station shall be set up near big capital construction sites, railway construction sites, and industrial and mining enterprises to purchase metal scraps turned out from production operations.

Article 27: Individually owned secondhand shops are only permitted to buy metal scraps possessed by citizens themselves. They can only resell such metal scraps to the designated scrap-collection department.

Article 28: No unit or individual dealing in secondhand goods is allowed to purchase the following items:

(1) Guns, ammunition, and explosives of all descriptions.

(2) Highly toxic and radioactive materials and their containers.

(3) Equipment, tools, and materials used exclusively for railways, oilfields, postal and telecommunications facilities, electric power plants and installations, communications projects, mines, water conservancy works, urban construction projects, and armed forces when offered for sale by individuals; and,

(4) Other items whose purchase and transactions are banned by the state.

When a secondhand shop finds that any of the items listed above is offered for sale, it shall promptly report the case to the public security organ and withhold the item in question.

Article 29: Cultural relics shall be purchased only by the units designated by the cultural administrative department. No other unit or individual is allowed to purchase cultural relics or accept them for consigned sales or as mortgage.

Chapter VII: Reward and Punishment

Article 30: Units and individuals engaged in special trades with outstanding performance in security management shall be rewarded. Those with striking achievements may be awarded the title of "advanced units in promoting public security" or "activists in promoting public security" after the public security organ has reported their achievements to the people's government at and above the county level and the said people's government has agreed to award the title.

Article 31: Those who violate these regulations by starting their business without a "special trade license" or failing to change the registration, as required, within the prescribed period shall be given warning and ordered to make correction before a deadline. If the case is serious, they shall be forced to close their business, and their illegal gains confiscated.

Article 32: Those who violate Article 13 of these regulations shall be punished in accordance with the "Regulations of the People's Republic of China on Public Security Management and Punishment." In addition, either they shall be ordered to make correction within a prescribed period or their "special trade licenses" shall be recalled or revoked according to the seriousness of their cases.

Article 33: Those who violate these regulations with any one of the following listed acts shall be given warning and ordered to make correction within a prescribed period. If the case is serious, their illegal gains shall be confiscated, and their "special trade licenses" shall be recalled or revoked.

(1) Making seals without valid documentary proof as required.

(2) An individual seal-engraver makes seals for an organization.

(3) A seal-engraver keeps the specimen of a seal or imitate it.

(4) A printing enterprise without a definite location prints publications for publishing houses and periodical-issuing units (editorial departments).

(5) Unauthorized printing of workers' identification cards and passes for major events or coupons and certificates to be circulated in society; or

(6) Selling types without approval from the public security organ.

Article 34: With regard to printing and selling reactionary and pornographic printed matter in violation of Article 21 of these regulations, the illegal gains and illegal publications or printed matter shall be confiscated. If the case is serious, the "special trade license" shall be recalled or revoked. In addition, the key and directly responsible personnel shall be subject to a fine of no more than 3,000 yuan according to the seriousness of the case.

Article 35: Those who violate these regulations with any one of the following listed acts shall be given warning, ordered to make correction within a prescribed period, or subject to a fine of no more than 1,000 yuan. If the case is serious, their illegal gains shall be confiscated, and their "special trade licenses" recalled or revoked.

(1) Setting up, without approval, salvage stations near big capital construction sites, railway construction sites, or industrial and mining enterprises to purchase metal scraps turned out from production operations;

(2) Individually owned secondhand shops buy metal scraps turned out from production operations or junked motor vehicles; or

(3) Buying banned items listed in Article 28 of these regulations.

Article 36: Those who continue to engage in special trade after their "special trade licenses" have been recalled or revoked by the public security organ shall be forced to close down their businesses. In addition, their illegal gains shall be confiscated, and a fine of no more than 5,000 yuan imposed on them.

Article 37: Cases that seriously violate these regulations and constitute crimes shall be prosecuted by the judicial department so as to determine their criminal liabilities according to law.

Article 38: For the collection of fines, receipts made by the financial department must be issued. All incomes from fines and confiscation shall be turned over to the financial department.

Article 39: Punishment stipulated in these regulations shall be enforced by the public security organ. Public security personnel who practice favoritism, blackmail, embezzlement, and bribery while enforcing these regulations shall be given disciplinary punishment by their units. Serious cases that constitute crimes shall be prosecuted by the judicial department so as to determine their criminal liabilities according to law.

Article 40: Units and individuals disagreeing with the administrative decision on their punishment may request reconsideration of the decision according to law. If they disagree with the conclusion of the reconsideration, they may file an administrative suit to the people's court. If they do not request reconsideration or file an administrative suit within the time limit set by the law and refuse to receive the punishment required by the administrative decision, the department making the administrative decision shall enforce the punishment according to law.

Chapter VIII—Supplementary Provision

Article 41: The meanings of the terms used in these regulations are as follows:

(1) Hotels mean guest houses, hotels, hostels, and inns, which provide lodging for guests.

(2) Seal-engravers are those engraving seals and stamps made of various kinds of materials for customers.

(3) Printers are those doing such work as printing, book-binding, plate-making, typesetting, drafting, blueprint-making, and copying.

(4) Secondhand shops are those engaged in buying metal scraps and junked motor vehicles as well as consigned sales, pawn, entrusted transactions, mortgage, and buying and selling of secondhand goods.

(5) Publications include books, newspapers, periodicals, new year paintings, pictures, wall calendars, and printed propaganda materials.

Article 42: These regulations shall take effect as of 1 September 1993. In case of conflict between these regulations and any previous regulations promulgated by this province, these regulations shall be binding. The "Jiangxi Provincial Regulations on Security Administration of Hotels, Seal-Engravers, Printers, and Secondhand Shops" promulgated on 27 June 1988 by the Jiangxi Provincial people's government shall become invalid when these regulations take effect.

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